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THE 1991 DEVELOPMENT REPORT CARD FOR THE STATES

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A TOOL FOR PUBLIC & PRIVATE SECTOR DECISION MAKERS

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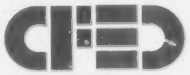

CORPORATION FOR ENTERPRISE DEVELOPMENT

THE 1991 DEVELOPMENT REPORT CARD FOR THE STATES

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A TOOL FOR PUBLIC & PRIVATE SECTOR DECISION MAKERS

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APRIL 1991

CORPORATION FOR ENTERPRISE DEVELOPMENT

CENTER FOR STATE AND LOCAL DEVELOPMENT

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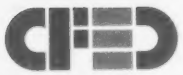

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Table of Contents

The 1991 Development Report Card for the States 1

Executive Summary: Auditing the States in a Recession 2

The 1991 Report Card Findings 3

Users' Guide 11

The Economic Performance Index 16

Economic Performance Report Card 17
Economic Performance Index Findings 19
Subindex One: Employment 21
Subindex Two: Earnings and Job Quality 22
Subindex Three: Equity 23
Subindex Four: Environmental, Health and Social Conditions 23
Economic Performance Data 25
Economic Performance Data Sources 29

The Business Vitality Index 32

Business Vitality Report Card 33
Business Vitality Index Findings 35
Subindex One: Competitiveness of Existing Businesses 37
Subindex Two: Entrepreneurial Energy 38
Subindex Three: Structural Diversity 39
Business Vitality Data 40
Business Vitality Data Sources 42

The Development Capacity Index 44

Development Capacity Report Card 44
Development Capacity Index Findings 47
Subindex One: Human Resources 51
Subindex Two: Technology Resources 52

Subindex Three: Financial Resources. 53
Subindex Four: Physical Infrastructure and Amenity Resources. 54
Development Capacity Data. 57
Development Capacity Data Sources. 61

The State Policy Index. 64

State Policy Report Card. 65
State Policy Index Findings. 70
Subindex One: Governance. 73
Subindex Two: Workforce Development. 75
Subindex Three: Technology and Innovation. 77
Subindex Four: International Marketing. 78
Subindex Five: Development Finance. 79
Subindex Six: Local Economic Development Assistance. 81
Subindex Seven: Infrastructure and Amenities. 82
State Policy Data. 86
State Policy Data Sources. 94

Appendix A: Rural/Urban Disparity Index. 108

Rural/Urban Disparity Data. 110
Rural/Urban Disparity Data Sources. 111

Appendix B: Traded Sector Strength and Structural Diversity. 112

Appendix C: Minority and Women Business Ownership Index. 115

Minority and Women Business Ownership Data. 115
Minority and Women Business Ownership Data Sources. 116

Appendix D: Tax and Fiscal System Index. 117

Tax and Fiscal System Data. 120
Tax and Fiscal System Data Sources. 123

Appendix E: Transfer Payment Investment Index. 124

Transfer Payment Investment Data. 125
Transfer Payment Investment Data Sources. 126

Appendix F: The State Report Cards. 127

Appendix G: The 1990 Development Report Card. 132

Please Note: This is last year's Report Card

Quick Guide to the 1991 Development Report Card. 134

Acknowledgments. 156

The 1991 Development Report Card

	Economic Performance Index	Business Vitality Index	Development Capacity Index	State Policy Index
Alabama	D	B	D	D
Alaska	D	B	C	C
Arizona	C	C	B	D
Arkansas	D	D	F	C
California	C	A	A	A
Colorado	D	A	A	C
Connecticut	A	A	A	A
Delaware	A	B	A	C
Florida	C	B	D	C
Georgia	C	C	C	D
Hawaii	A	D	B	C
Idaho	C	D	C	D
Illinois	C	C	B	C
Indiana	C	C	D	A
Iowa	C	D	C	A
Kansas	B	D	C	B
Kentucky	F	C	F	C
Louisiana	F	F	F	F
Maine	A	B	D	B
Maryland	A	A	A	A
Massachusetts	C	B	A	B
Michigan	C	D	C	A
Minnesota	B	A	A	A
Mississippi	F	C	F	B
Missouri	D	C	C	B
Montana	F	D	D	D
Nebraska	B	C	C	F
Nevada	A	B	F	D
New Hampshire	A	A	B	F
New Jersey	A	A	A	B
New Mexico	D	B	D	F
New York	D	A	C	A
North Carolina	B	A	C	C
North Dakota	C	F	D	C
Ohio	C	D	B	A
Oklahoma	D	F	D	B
Oregon	B	C	B	B
Pennsylvania	B	B	A	B
Rhode Island	B	C	B	B
South Carolina	C	D	D	C
South Dakota	C	C	C	F
Tennessee	C	C	D	C
Texas	D	C	C	D
Utah	B	A	A	D
Vermont	B	C	B	C
Virginia	B	B	B	C
Washington	A	C	A	C
West Virginia	F	F	F	D
Wisconsin	A	D	C	A
Wyoming	C	F	C	C

Executive Summary

AUDITING THE STATES IN A RECESSION

It was the worst of times, it was the best of times...

With apologies to Dickens, the plain fact is that 1991 will be a tough year to run a company or create jobs.

As the year opened, the economic statistics finally confirmed what everyone already knew: we *are* in a recession. In the last three months of 1990, real gross national product fell at an annual rate of 2.1 percent. Unemployment, while still low nationwide compared to the early-1980s, has risen steeply every month since May 1990 and exceeds the last recession in some states. Orders to factories are down sharply. And productivity declined in 1990 for the second year in a row.

Economists are arguing about whether the current recession will be long or short. But if you run a business, the numbers are real right now. At the same time that your trade association, the business press, and your own bottom line keep telling you that the competition around the globe is gaining on you, the resources you need to compete are drying up. Banks are tightening credit, suppliers are toughening payment terms, customers are holding back, inventory is backing up, market share is shrinking — and you still have a payroll to meet.

If you're unlucky enough to run a state or local government, the situation is worse. Deficits are ballooning, budgets have been slashed, but, unlike private companies, *your* business is booming: more and more of your "customers" are clamoring for income support, food stamps, health and housing assistance, and dozens of other needed but costly services.

And yet, in some respects, 1991 may also turn out to be the best of times. Crises often come packaged with an opportunity — a chance to do things differently. The "up" side of recession's downside is that while adversity makes change more urgent, it also makes it more possible. As the CEO of a Massachusetts high-tech company recently told *Fortune* magazine:

"When you're concerned about survival, people really get religion. The pressure is intense and the fear is mounting, so it's change or else."

But how? Where do you cut? Where do you spend? What tools do you use to make these decisions?

The answer is plain. You begin just as the most innovative companies do — with a strategic audit. You begin with *The Development Report Card for the States.*

MANAGING BUSINESS IN A RECESSION

Let's say you own a business. The conventional wisdom for weathering a recession traditionally has been to lie low: lay off workers, minimize inventory, and postpone expenditures. But chances are you got through the *1980s* recession doing precisely that, and you're still operating fairly "lean and mean." Consequently, the conventional wisdom just isn't much help as you look ahead. What's more, at least with the last recession,

SUMMARY

you could take some comfort in the knowledge that your competitors elsewhere in the world were in the same boat. *This* year, there's no such comfort. Europe and Asia are strong and very competitive; so you stand to lose market share, not just sales, in this recession.

Given these realities, business analysts have begun revising the conventional wisdom. As a first step, they say, do a strategic audit. Sit down with your accountant and take a very hard look at your costs — personnel, equipment, purchased services, energy and other operating costs, even scheduled maintenance if postponement won't harm long-term production capacity. But don't stop there. To ensure that you not only weather the recession, but also hit the ground running when it begins to lift, you'll need to make strategic investments *now* in product development, productivity enhancement, quality, customer satisfaction, even advertising — typically the first thing a business cuts in a downturn.

In short, you need to look outward, not just inward. You need to take risks and spend more in some strategic areas, even as you cut back elsewhere. As Harvard professor Robert Eccles, writing in a recent issue of the *Harvard Business Review*, explains: "What matters is how a company is doing compared with its current competitors, not with its own past."

GOVERNING IN A RECESSION

For public agencies responsible for economic development, the situation is remarkably similar. For a moment, think of your state's economy as a corporation — say a big commercial, agricultural, industrial park. The governor is the CEO of the corporation managing the park, the citizens are the shareholders, the legislature is the board of directors, and state agencies are the management staff. Businesses are the tenants. The stockholders want a high occupancy rate so there will be plenty of jobs, but they give the CEO relatively limited authority and capital to develop the site.

The real challenge facing states during a recession and in the months to come is the same one facing companies: how do you do *more*, not less, with less?

In the 1960s and 1970s, the way agency management met these demands was to recruit new tenants by offering rent reductions — that is, by providing firms with tax abatements and other location inducements. Eventually, however, existing tenants complained that the newcomers — who, after all, brought in fewer than 10 percent of the new jobs — were getting an unfair advantage. What's more, to pay for this "first wave" of development effort, management had raised the rent (taxes) on the *existing* tenants, while neglecting needed improvements in the industrial park.

To compete, the existing tenants argued, we need management to keep the parking lot paved, the grounds landscaped, and the water, sewer and power systems working smoothly. We also need help with new technology, greater access to risk capital, and workers with better skills, among other services. So during the 1980s, state management responded with a "second wave" of development activities, making direct investments in training initiatives, R&D, modernization services, development finance programs and more.

These "capacity-building" investments have had measurable effect. Tangible improvements have emerged in the economic climates of many capacity-building states, and these improvements can be tracked through successive issues of the *Development Report Card*.

But, despite some successes, neither the tenants nor the management are satisfied yet. Even in the best of times, the public resources for providing critical development services are limited and the "technology" used to deliver them — *directly*, through government programs — is inefficient and becoming obsolete. Though they aim to address real problems identified by businesses, most development programs lack sufficient scale to have a significant impact on the problems they seek to address, and they tend to be slow at adapting to changing customer needs, highly compartmentalized and less than "user-friendly."

When the recession hit last year and revenues began to slip, the conventional wisdom offered economic development managers was roughly the same as it was for

companies: cut services and spending and, whatever you do, don't raise taxes.

But the conventional wisdom has some serious limitations. Fat-trimming simply cannot create enough savings to compensate for rapidly escalating needs in an environment of deepening deficits. Moreover, the practical effect of making across-the-board cuts in development services — which, in effect, protect weak programs at the cost being unable to devote more resources to more productive ones — is that you simply dig your hole deeper.

The real challenge facing states during a recession and in the months to come is the same one facing companies: how do you do *more*, not less, with less? That is, how do you retain the jobs that already exist in the state while positioning the state to generate new jobs when the national economy improves?

Just as corporations have begun devising a new calculus for competitiveness — one that emphasizes increasing their overall productivity, quality and customer satisfaction, not just reducing their production costs — states have begun inventing new approaches to economic development, with similar characteristics. This "third wave" of development initiatives aims to improve dramatically the productivity of development services and extend the reach and impact of economic development investments, creating more jobs and providing better services without committing additional public resources.

GOING MAINSTREAM: ECONOMIC DEVELOPMENT'S "THIRD WAVE"

At the heart of these new initiatives is a simple proposition right out of Adam Smith: nothing brings together resources and opportunity more effectively than a functioning market. As they wrestle with deficits of historic proportions, governors across the nation — conservative and liberal, Republican and Democrat — are recognizing the common sense in marshalling public and private ingenuity and resources to meet businesses' articulated demand for constructive development services.

They aim, in the words of one new governor, Florida's Lawton Chiles, "...to measure outcomes, to give money on the basis of these measured results rather than on the size of legislative inputs, so that we can properly evaluate whether state government is providing services that result in customer satisfaction." At the other end of the East Coast, in his inaugural address, Massachusetts' newly-elected William Weld delivered essentially the same message. Echoing manufacturing quality guru W. Edwards Deming, Weld observed: "The problem is not state employees; the problem is a system which dissipates their talents and frustrates their ingenuity...It won't be enough to merely close this year's budget gap...we will need to reshape our government in fundamental ways."

Though for these new governors there will be a four-year giant step from rhetoric to results, their observations indicate that "third wave" concerns have entered the mainstream of economic development governance. These and other governors have concluded that even in the best of times, no public development program can substitute for a private market that does not operate effectively, or does not exist at all. *Changing the system* by which government assists businesses and helps create jobs — not attempting to address every business need exclusively with public resources and initiative — is the true challenge, and local, county and state governments around the country are beginning to take it up.

No state, for example, has the financial wherewithal to provide all the risk capital new enterprises need, but it *can* create the conditions for private capital markets to meet the need — as Michigan has with its Strategic Fund. No state can marshall the technological resources needed to modernize every existing industry and spawn new ones on its own, but it *can* mobilize private resources to provide that assistance — as Pennsylvania has with its Ben Franklin Partnership. No state by itself can create enough jobs to turn around the lagging economies of rural areas, but it *can* make it attractive for private investors to do the job — as North Carolina has with its new Enterprise Corporation.

While the emerging third wave economic development initiatives vary from state to state and community to community, they share several key characteristics:

- They seek to meet the *scale* of development need by ensuring the availability of a wide variety of

service providers — among public development agencies providing similar services, and non-profit and for-profit private sector organizations.

- They *leverage* large amounts of private resources with limited public ones, thus generating the level of resources necessary to achieve significant impact.
- They are *customer-driven* rather than agency-dictated, giving business "customers" the power to choose which services will serve them best.
- They are *decentralized*, vesting responsibility and authority at levels closest to the customer.
- They are *performance-funded* rather than authorization-funded, so that resources (including budget savings and program earnings) flow to the programs that do the best job of serving customers.
- They focus on *prevention* rather than cures, by restructuring incentives to ensure that the sources of problems are addressed, and that the long-range costs of any actions — not just their short-range benefits — are reflected.

AN AUDITING TOOL FOR DECISIONMAKERS

Once again, perhaps the most significant characteristic of third-wave economic development initiatives is that they inevitably result from a careful assessment of the "market" within which they must operate. Understanding the structure, operation and potential of a state's economy is as crucial to designing competitive economic development practices as a strategic audit is to building competitive companies. Especially in a recession, when the margin for error is narrower than ever, a clear-eyed picture of your competitive position is vital.

The Development Report Card for the States is designed to be a tool to help decisionmakers come to grips with the comparative positions of state economies — their assets, liabilities and inherent capacity to sustain growth. It's a way of "benchmarking" each state in relation to its neighbors and competitors. The *Report Card* is composed of more than 150 individual measures gathered into four indexes:

Economic Performance Index

The *Economic Performance Index* is like a company's profit and loss statement. It addresses the "return" on past public and private economic development investment: employment, income, and the distribution of each within the population. Companies tend to treat their financial figures as a reflection of their competitive position. But, as Harvard's Robert Eccles notes, "Financial figures are better at measuring the consequences of yesterday's decisions than they are at indicating tomorrow's performance." The same is true of the Economic Performance Index; it's an accurate portrait of the recent past — important, but insufficient. To see ahead, we need other measures.

Business Vitality Index

The *Business Vitality Index* is like an analysis of a company's product line. It documents how existing and new businesses are doing and whether the state depends largely on one or two "products" (industrial sectors) or has a diverse and well-balanced product line. Typically, the stronger the product line, the better the company's performance.

Development Capacity Index

The *Development Capacity Index* gets to the heart of the state's "fundamentals" — human, technology, capital, and amenity and infrastructure resources. When reviewing a company's stock, a Wall Street analyst will examine not just its current price and price/earnings ratio, but also the underlying condition of the firm, knowing that in the long term, the company's fundamentals are more important than current price. The Capacity Index does the same thing for state economies. While Michigan and West Virginia may both be experiencing serious employment trouble during the current recession, for example, the Capacity Index indicates which state is best positioned to rebound when the economy turns around.

State Policy Index

The *State Policy Index* is like a peek at a corporation's long-term strategic plan. It illuminates what the state is doing to strengthen or maintain its fundamentals so as to retain or improve its competitive position in the future. It addresses the tax and regulatory environment, workforce development, innovation and technology, international market development, development finance, assistance to local governments, and infrastructure and amenities.

THE AUDIT RESULTS: 1991 REPORT CARD FINDINGS

THE NATIONWIDE LESSONS

Lesson #1: In economic development as in business, you get what you pay for.

Any investor knows you have to spend money to make money, and every consumer knows you get what you pay for. There *are* legitimate bargains in the world, but they tend to be few and far between; more often, when you buy at discount, what you get is discounted goods. In the case of running a business, you can cut corners just so far before you begin cutting your long-term ability to succeed.

Translated into the language of the *Development Report Card*, the lesson is simple: Development Capacity Matters. No state can generate significant job and income growth for long without making significant investments in the fundamentals of job and income production: people, technology, capital, infrastructure and amenities. The numbers tell the whole story:

- The regions with the best Economic Performance Index grades also had the best Development Capacity Index grades — the Northeast and Pacific.
- The region with the worst Economic Performance Index grades had the worst Development Capacity Index grades — the South.
- Only *two* states with an *A* in Economic Performance did not also have an *A* or *B* in Development Capacity — Maine and Wisconsin.
- Only two states with an *A* in Business Vitality did not also have an *A* or *B* in Development Capacity — New York and North Carolina.
- *No* state with an *F* in Development Capacity did better than a low *D* in Economic Performance, and four of the five states with an *F* in Development Capacity also got an *F* in Economic Performance.
- Only one state that got a *D* in Development Capacity did better than a *C* in Economic Performance.

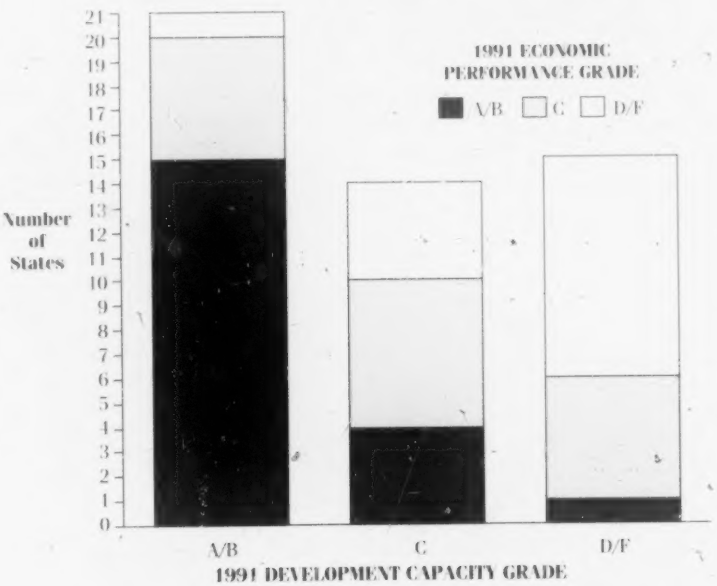
In all, 22 of the 50 states have exactly the same grade in Performance as they do in Capacity, and 23 more differ by only one grade.

There is a corollary to this lesson. Just as stockholders should look beyond quarterly reports, taxpayers should look beyond short-term job creation figures and scrutinize their state's commitment to investment in productive capacity. And they should be patient; it takes time for those investments to pay off.

Lesson #2: It takes more than money to fix a sick economy; you have to change how it's managed too.

When "turn-around specialists" take on businesses in trouble, they don't just restructure the company's spending, they restructure its management system as

CAPACITY / PERFORMANCE CONNECTION



Development Capacity strength exerts a clear influence on state Economic Performance

well. They know they can't just spend their way out of the hole. For example, when Sears and Montgomery Ward realized that customers were no longer satisfied with generic merchandise and preferred to shop for brand names in specialty stores instead, the two retail giants immediately began creating their own "specialty stores" — like Sears' "Brand Central" and Ward's "Electric Avenue." But, despite the new names and locations, the strategy didn't work; the stores didn't have the specialty merchandise that customers sought, they lacked the more personal customer service specialty stores offer, and, back at headquarters, it was still the same old corporate system — massive, inefficient and bureaucratic.

It's the same in state development policy. We know that changes in a state's policy commitment to invest in its development capacity, however dramatic politically, will take a long time to yield economic performance changes. One reason is that it simply takes a long time to change the education and skill levels of the workforce, for example, or the quality of public infrastructure. Another reason is that public resources are simply too small to make a big dent in the problem; the resources that were meaningful when economic development meant recruiting one or two branch plants from someplace else are puny when the task is retooling an entire state economy. What worked when the task involved a few million dollars and a few hundred jobs can't work when the task involves a few billion dollars and several thousand jobs.

Finally, when governors, mayors and other public sector officials try to create dramatic economic change within a system that is insular, resistent to change, bureaucratic and typically unresponsive to customer demands, they're bound to fall short of the objective. States like Michigan, Ohio, Mississippi, Iowa and Oklahoma have made significant policy commitments to build up the fundamentals of their economies, and they score well in the State Policy Index as a result. But unless they succeed in changing their approach in offering economic development services — by releasing the talents and rewarding the performance of their employees, increasing the variety in service deliverers, providing better customer service, and more — the impact of their commitments will be less than it could be...and *should* be.

Lesson #3: Even strong economies get the blues.

In state economies as in businesses, even solid fundamentals can't protect you from recessions. Many of the strongest state economies in the nation are being hurt by the current economic slump. Employment is down, revenue is down, and deficits are up in a big way. In California, Connecticut, Massachusetts, Minnesota and elsewhere, the press breathlessly reports each rise in budget deficit estimates and each increase of one-tenth of one percent in unemployment as if the sky were falling.

It's not. The plain fact is that many of these states have good economic fundamentals — some of the strongest in the nation. More importantly, even if the current recession deepens and unemployment figures exceed those of the 1980s, what matters most is what states *do* about it. If they make significant cuts in investment in their productive assets, the bottom line (business development, jobs and earnings) will only worsen in the future — a mistake for which the South has paid dearly in the last two or three decades. Many of the states in the industrial Northeast, Midwest and West Coast are reasonably well-prepared to bounce back when the recession turns around, so long as they avoid disinvestment in development capacity today.

THE REGIONAL LESSONS

The Pacific Coast

Corporate Profile: The fast-growers.

All but one of the five states in this region, which includes California, Oregon, Washington, Alaska and Hawaii, grew faster than 10 percent during the last decade, according to the new Census. The same could be said of the region's economies. Driven by population growth, assisted by strong technology resources and a talented workforce, and blessed with an exceptionally high quality of life, these states are booming. And, with the possible exception of Alaska, these states have also been diligent about investing some of the benefits of this growth into expanding and enhancing their capacity to sustain — and, in some cases, control — growth in the future.

There are two weak spots in

this region — Alaska and Hawaii. In both cases, the weakness is lack of economic diversity: they each have too much of a good thing, in one case over-dependence on oil, in the other over-dependence on tourism. Both have been relatively successful revenue generators, but neither state seems to have been as careful as its regional neighbors about reinvesting those resources in either capacity-building or diversification. On the other hand, both likely have a chance to become more diligent, since it is hard to imagine tourism tailing off in Hawaii or Alaskan oil development discontinuing in the near future.

Investment Outlook: Solid growth in play with strengthening fundamentals.

The Industrial Midwest

Corporate Profile: The turn-around economies.

America's industrial heartland (which, for *Report Card* analysis, includes Pennsylvania) is accustomed to taking it on the chin whenever a recession strikes. But not this time. Boasting the highest State Policy grades of any region, the Industrial Midwest's turnaround has been remarkable — especially given the distance it has traveled since the darkest days of the 1980s recession. Its Development Capacity grades are good and, while its Business Vitality and Economic Performance standings could be stronger in some cases and *are* being affected by this recession, it is far better prepared to weather a downturn this year than it was a decade ago, in part due to a stronger effort in manufacturing exports. Indeed two of the five states with nothing but *A* and *B* grades, Minnesota and Pennsylvania, are in this once nearly derelict region. Even more important, the investments the region is making in capacity-building promise to help reestablish it at the cutting edge of global manufacturing.

Investment Outlook: Not a sure thing, perhaps, but a good risk nonetheless.

The Northeast

Corporate Profile: Internationally competitive with a few weak divisions.

Despite much weaker Economic Performance figures this year in Massachusetts, Rhode Island and Vermont, the complex and technology-intensive economies of the Northeast are fundamentally strong, composed of competitive businesses and built upon a past commitment to long-term investment to keep them competitive. Three of the five states earning all *A* and *B* grades this year are in the Northeast — Connecticut and Maryland (both with straight As) and New Jersey (three As and a *B*). However, a few divisions in this "conglomerate" — New Hampshire, Maine, Massachusetts and New York in particular — are weaker overall than the rest. Maine suffers from poor Capacity, while New Hampshire is doing little to invest in its continuing ability to spawn and support development over the long haul, as evidenced by its State Policy grade. New York, meanwhile, exhibits deteriorating Economic Performance, marked by wide disparities in sharing the benefits its economy produces; and Massachusetts is experiencing serious declines in short- and long-term employment.

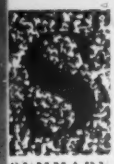
Investment Outlook: A blue chip region overall, with solid development fundamentals.

The Mountain West

Corporate Profile: The takeover target.

If the Mountain West were a corporation, it might be ripe for a takeover. It has a portfolio composed of poor-to-average performing divisions, (Montana, Arizona, New Mexico, Idaho and Wyoming), two hot spots (Utah and Nevada), and one underachiever with good fundamentals (Colorado). The weakest condition overall is in State Policy, where the region trails the nation. Part of the region has had such rapid population growth that it hasn't had to think about investing in the long term; it's too busy keeping up with the boom. The remainder performed poorly for most of the 1980s, when the extraction industries on which many of these states depend slumped. These industries have yet to recover, and these states have been unable to muster the political will to rebuild and diversify. Still, this is not a region without assets: it has some of the highest high school graduation rates in the country; unfortunately, those graduates are also the region's principal export.

Investment Outlook: Good place for gamblers who think the upside po-



tential of Nevada, Utah and Colorado outweighs the downside risks of the non-performing assets.

The Plains

Corporate Profile: The underperformers.

Here are seven states with just-below-average Development Capacity fundamentals and lagging Business Vitality, constrained by poor industrial diversity and low value-added. Two are still relatively energy-dependent (Texas and Oklahoma); five are still relatively agriculture-dependent (Nebraska, North and South Dakota, Kansas and Iowa). Typically, they have good workforces — with Texas and Oklahoma the major exceptions — and above average quality infrastructure and amenities, but their overall Capacity resources are only fair. And their efforts to invest in the future vary widely. One state, Iowa, is doing something to change things and ranks the top-ranked *A* this year in the State Policy Index, capping a steady four-year climb from 21st. Oklahoma and Kansas earn a *B* in Policy and North Dakota a *C*. Nebraska, South Dakota and Texas trail the region, rating a Policy *D* or *F*.

Part of the explanation is habit. Accustomed to cyclical economies, these states appear to be waiting for things to improve again, and the improvement in grain prices recently seems to have borne them out. But their dependency is profound and diversification is urgently needed. Texas is succeeding, gradually building a complex technology and services economy upon its energy and agricultural foundations. The rest have a long way to go, and some show little interest in the journey.

Investment Outlook: Some bright spots, but low overall return on investment.

The South

Corporate Profile: Slowly rebuilding industries.

With few exceptions, these states are like companies trying to recover from a disastrous foray into discount merchandising. This is the birthplace of industrial recruitment, of keeping taxes, spending and regulation down in order to attract low-wage manufacturers. What the states that pursued this strategy ultimately got was a low-value economy and decades of depreciation on assets that were never very strong to begin with. Hamstrung by the lowest Development Capacity grades in the nation — only Virginia gets as high as a *B* — several of these states nevertheless show remarkable levels of entrepreneurship. One, North Carolina, earns an *A* in Vitality on the strength of its new businesses. Still, these states have a long rebuilding ahead of them, a task at which only two states — Mississippi and South Carolina — have improved significantly, judging by their Policy scores.

Investment Outlook: A potentially risky, long-term investment opportunity, suitable for patient investors only.

User's Guide

The *Development Report Card for the States* is more than a simple list of numbers and grades. It offers a tool with a variety of uses for understanding the condition and direction of individual state economies. Like any selective collection of data, the *Report Card*'s value lies not only in the questions it asks, but in the questions that you seek to answer when using it. So, if your time is limited, review this brief description of the *Report Card*'s organization and potential uses before you delve into its details.

A REPORT CARD GLOSSARY

To start, here is a glossary of the basic elements of the *Report Card*:

Index. The *Report Card* is made up of four graded Indexes which, taken together, constitute a state's "economic climate." They are:

1: Economic Performance
2: Business Vitality
3: Development Capacity
4: State Policy

Each state receives an Index grade from *A* to *F* — just like in school — based on how it scored, compared to the other 49 states, in each of these "subjects."

Subindex. Each Index, in turn, is made up of a series of graded Subindexes. Subindexes are organized by the very topics that our research uncovered as the primary determinants of economic development. The number of Subindexes per Index varies between three and seven, as follows:

Economic Performance Index
1: Employment
2: Earnings and Job Quality
3: Equity
4: Environmental, Social and Health Conditions (ungraded)

Business Vitality Index
1: Competitiveness of Existing Businesses
2: Entrepreneurial Energy
3: Structural Diversity

Development Capacity Index
1: Human Resources
2: Technology Resources
3: Financial Resources
4: Physical Infrastructure and Amenity Resources

State Policy Index
1: Governance
2: Workforce Development
3: Technology and Innovation
4: International Marketing
5: Development Finance
6: Local Economic Development Assistance
7: Infrastructure and Amenities

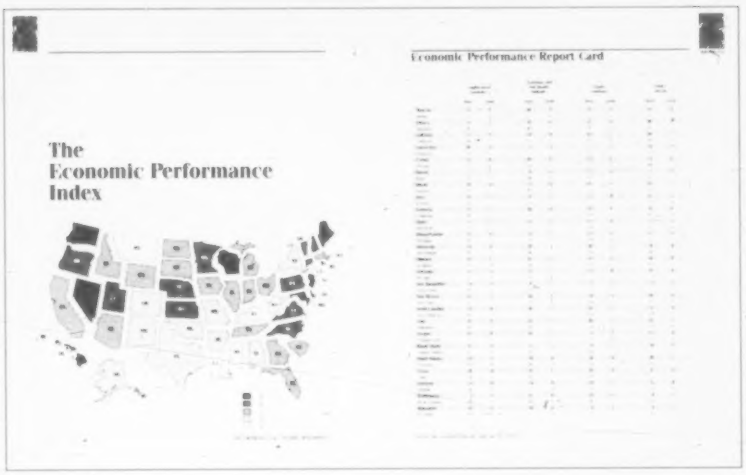
Measure. The Subindexes are composed of a varying number of individual Measures. In total, more than 150 Measures are gathered into the *Report Card*. When a Subindex is very large, Measures may be further categorized by topic, just to help collect related Measures in one place. The actual data for each Measure are included in a table at the end of each of the four Index chapters, as are the citations for data sources and dates.

Special Appendix. In a very few cases, we have constructed a Measure by undertaking or commissioning special research which requires additional explanation or state data lists. In these instances — Rural/Urban Disparity, Minority and Women Business Ownership, Traded Sector Strength and Structural Diversity, Tax and Fiscal System, and Transfer Payment Investment — we provide a special appendix for users who want further detail on the specific topics.

USING THE REPORT CARD FOR YOUR PURPOSES

How you use the *Report Card* depends on what you want to use it for. It's quite likely that a corporate planner will want to glean different information from the *Report Card* than either a student of economic research or a state or local policymaker.

In any case, here are the questions *Report Card* users ask us most frequently. We offer some suggestions about where to look in the *Report Card* to start finding an answer.



How are state economies doing in general? How are different regions faring?

■ The national and regional findings of the *1991 Development Report Card for the States* are in the *Executive Summary: Auditing the States in a Recession*, starting on page 3.

■ General findings specific to Economic Performance, Business Vitality, Development Capacity and State Policy are featured near the beginning of each Index's chapter. See pages 19, 35, 47, 70.

What is my state's overall economic climate?

■ Find the complete list of your state's Index and Subindex grades on its individual *State Report Card*, arranged alphabetically beginning on page 127.

■ Consult the four *Index Data* tables to locate how your state scored on the individual measures that make up each Index. See pages 25, 40, 57, 86.

How is my state doing compared to other states?

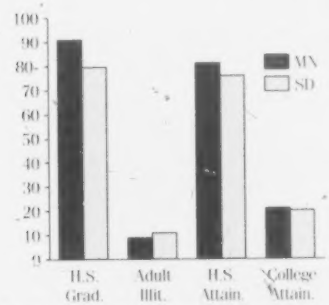
■ The *1991 Development Report Card*'s four overall Index grades for all fifty states are on page 1.

■ A list of how all fifty states fare on each individual Index — Economic Performance, Business Vitality, Development Capacity, or State Policy — as well as its component Subindexes, is on the *Index Report Card* that starts each Index chapter, alongside a national map that illustrates a breakout of that Index's grades. See pages 17, 33, 45, 65.

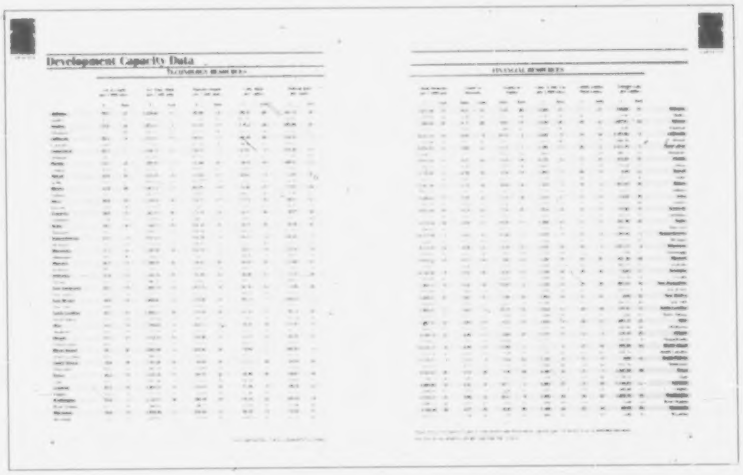
■ The *Data* tables at the back of each Index chapter will show you how all fifty states fared on the individual Measures that make up each Index. See pages 25, 40, 57, 86.

■ This year, every *Report Card* comes with a *Demo Disk* that allows you to generate state-to-state graphic comparisons — bar

charts, maps, range distributions and more — on your computer for a limited number of *Report Card* measures and grades. Find the Demo Disk in the disk pocket on the back of the front cover.



HUMAN RESOURCE CAPACITY



How is my state doing compared to last year?

■ The *1990 Report Card* Index and Subindex grades are available for comparison on page 156.

Which states are strongest or weakest in specific measures?

■ Check the *Quick Guide to the Development Report Card* on page 158 to find the topic or measure that interests you. The *Quick Guide* will refer you to the appropriate pages for data or grade comparisons.

How can I find out more about a particular measure?

■ Find the data and the source information for any one Measure on the *Index Data* tables, followed by the *Data Source* listings at the end of its Index chapter. See pages 25, 40, 57, 86.

■ A text explanation for the Measure is in the Index chapter's narrative. See pages 21, 37, 51, 73.

■ In a very few cases — specifically Rural/Urban Disparity, Traded Sector Strength, Minority and Women Business Ownership, Structural Diversity, Tax and Fiscal Systems, and Transfer Payment Investment — you will find more information about a Measure in the *Report Card*'s appendixes.

What directions are emerging in state economic development policy?

■ The *Executive Summary: Auditing the States in a Recession* chapter includes some commentary on recent development policy, as well as the challenges facing development practitioners in the face of the ongoing recession. See page 3.

■ The *State Policy Index* offers a state-by-state inventory of economic development effort, and a text discussion of the program components and strategic policy trends that define that effort. See page 64.

THE REPORT CARD FRAMEWORK

The construction of the *Report Card*'s Indexes is based on a model of how economic development happens. CFED's model incorporates the findings from an extensive literature review about the dynamics of development and economic growth, which was guided by a technical advisory board composed of economic experts and representatives from business, labor, government and community development organizations, and drew upon our own technical assistance and strategic policy design experience.

The heart of the *Report Card* — this model of the development process — can be stated simply:

The goal of economic development is long-term, widely-shared increases in an area's standard of living — tangible and intangible. To measure progress toward achieving that goal on the state level, we must strive to answer four related questions:

■ ***How well has the state's economy been performing?*** Answering this question draws the bottom line on whether a state's standard of living is increasing or declining. Economic Performance — a snapshot of recent trends in a state's employment, income and quality of life — largely results from the vitality of the business community, which organizes and manages most economic activity.

■ ***How vital are the businesses in the state?*** The health of a state's business base is rooted in competitive edge, diversity, market strength and long investment horizons, as well as the ability of new firms to start up and older ones to innovate and adapt — in short, its Business Vitality.

■ ***What is the capacity for future growth?*** Given today's global economy, the competitive edge essential to a state's business vitality springs from effectively using and augmenting its Development Capacity — that is, the building blocks of economic development: human skills, finance, technology, and physical, social and cultural amenities.

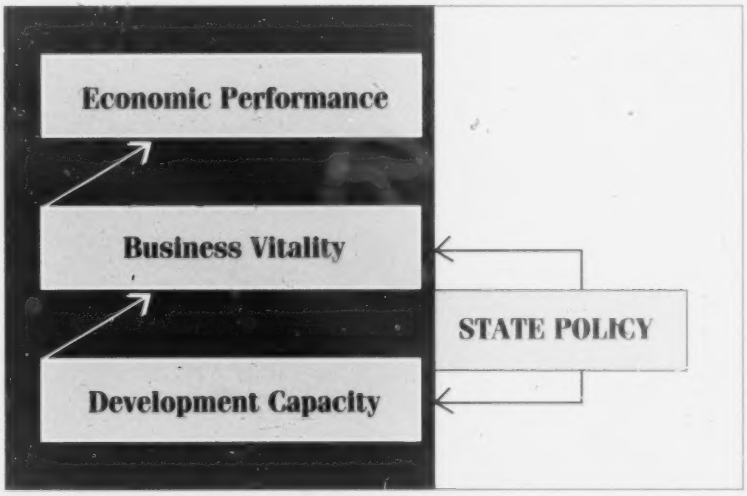
■ ***What policies have been established to support business growth and expand individual opportunity?*** State Policy can foster or undermine Economic Performance by affecting its Development Capacity or Business Vitality.

To learn more about what underlies these framework questions, please read the *Report Card*'s *Executive Summary* and four main Index chapters: *Economic Performance*, *Business Vitality*, *Development Capacity* and *State Policy*.

MAKING THE GRADES: REPORT CARD METHODOLOGY

Here's how the Report Card grades are calculated:

Measure Scores and Ranks. Raw data — the "score" for each Measure — is collected for every state. The best state score is assigned a ranking of "1." When a tie occurs, both states receive the same rank, and the next highest scoring state is ranked as if a tie had not occurred. For example, if two states lead all others with identical Measure scores, they



The four *DRC* Indexes model the economic development process.

both receive a rank of 1, and the next state is ranked 3. In cases where the raw data is a "yes" or "no" — as in the State Policy Index, where states either have (yes) or don't have (no) a program — states receive a rank of 1 or 50.

Subindex Scores and Ranks. To compile a Subindex, a state's ranks for every Measure in the Subindex grouping are added together. This total is the Subindex score. Subindex scores are then ranked from 1 to 50. Rank ties are treated in the same way as they are for individual Measures.

Index Scores and Ranks. Creating a final Index score involves a process very similar to creating the Subindex scores. State ranks on each relevant Subindex are added together, creating an Index score. The resulting scores are then ranked from 1 to 50.

Report Card Grades. Grades are assigned corresponding to each Subindex and Index final score and rank. In each case, the top 10 scoring states receive *A*'s, the next 10 receive *B*'s, the middle 15 receive *C*'s, the next 10 receive *D*'s, and the final five, *F*'s.

CAUTIONS AND CAVEATS

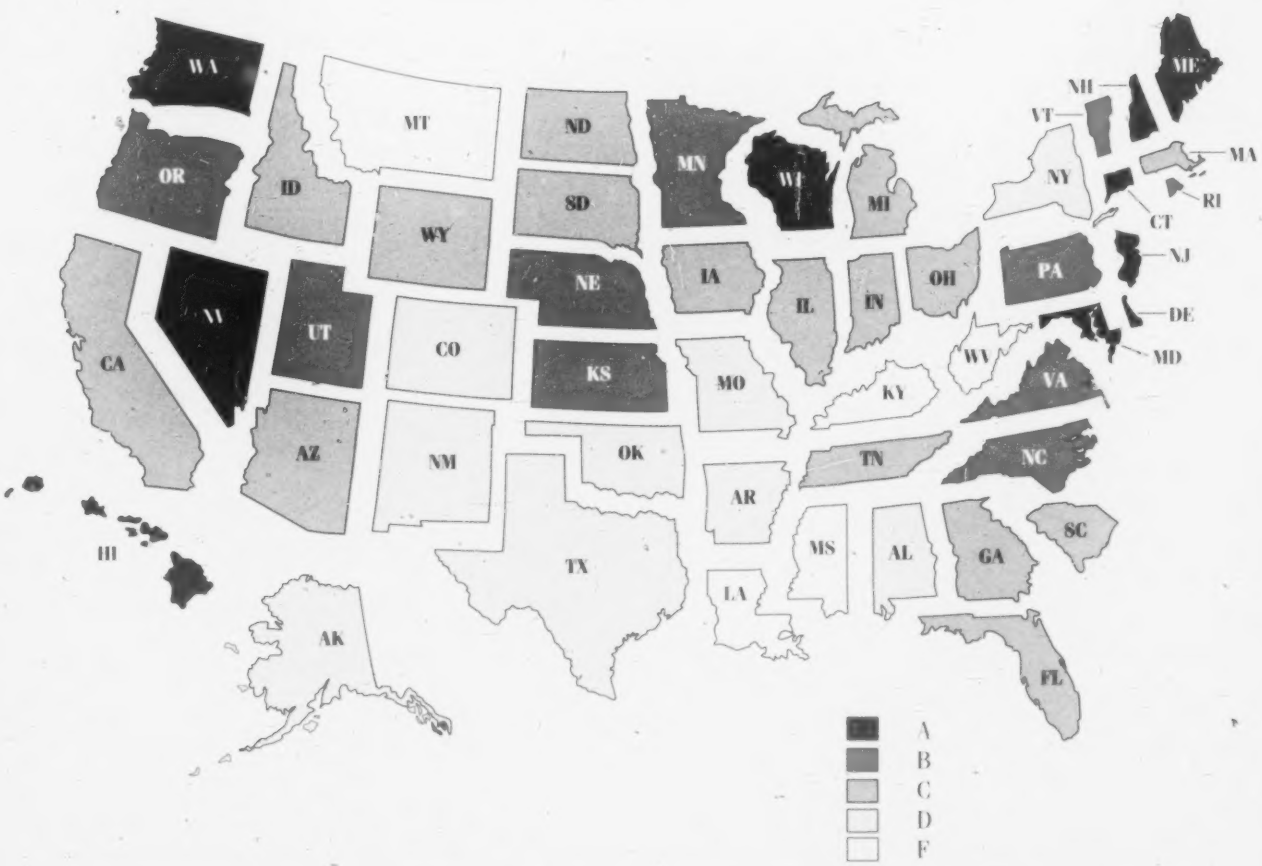
Since its inception in 1987, CFED has steadily worked to improve and update the *Report Card*, based on the advice of leading practitioners in economic development and opportunity policy with whom we talk and work, as well as on surveys of *Report Card* users. Although this has resulted in significant and consistent refinement, we think some issues still need explanation.

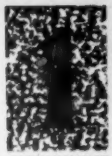
No Grade Point Average. Unlike other economic climate indexes, the *Development Report Card* does not attempt to assign states one "final" averaged grade or rank from 1 to 50. Why not? Well, just as a broken ankle might be crippling if you work on your feet all day, but only a minor inconvenience if you work at a computer, businesses and what they require to thrive in an economic climate differ. A single list purporting to be a composite of a state's "overall" economic climate would be falsely "precise" and essentially pointless: what one business finds attractive may be of little interest to another. Therefore, we assign more general *grades* to each of our four individual Indexes and seventeen Subindexes, designated by the topics that most interest public and private sector decisionmakers.

The Quality of Data. As with any diagnostic tool, the measures available to diagnose the health of state economies vary in quality and precision. Since we are driven by what needs to be known, not just by what is readily knowable, we sometimes have to resort to proxy Measures — indirect ways of getting answers to important questions because no one has asked or collected data on them before.

The Timeliness of Data. The precision issue is exacerbated by the problem of timeliness. The best 50-state data sources tend to be at least six months old, and some factors are measured only once every three to ten years. Moreover — even when you may have recent data — recent economic events that have clearly affected people or individual businesses may not yet show up in data. Economists call this "lags" in the data. For example, your town could be suffering a serious economic slump as people tighten their belts in anticipation of an upcoming major plant closing — but that slump, although very obvious and real to you today, will not show up in statistics until it is reflected in collected data, like growing unemployment or sagging product sales figures. As a result, new "conventional wisdoms" proclaimed in newspaper headlines may not be confirmed by data for months or even years. Since the *Report Card* is based on — and thus limited by — available and collected measures, changes in economies which are dramatic by anecdote may appear slight on the *Report Card*.

The Economic Performance Index





Economic Performance Report Card

	Employment Subindex		Earnings and Job Quality Subindex		Equity Subindex		INDEX GRADE	
	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade
Alabama	45	D	36	D	37	D	44	D
Alaska	43	D	11	B	41	D	37	D
Arizona	9	A	42	D	37	D	30	C
Arkansas	36	D	48	F	39	D	45	D
California	17	B	18	B	32	C	26	C
Colorado	26	C	35	C	41	D	39	D
Connecticut	38	D	1	A	5	A	10	A
Delaware	6	A	4	A	26	C	6	A
Florida	11	B	36	D	19	B	23	C
Georgia	12	B	30	C	44	D	28	C
Hawaii	1	A	9	A	15	B	3	A
Idaho	20	B	39	D	31	C	33	C
Illinois	42	D	17	B	35	C	35	C
Indiana	29	C	26	C	9	A	22	C
Iowa	31	C	24	C	11	B	23	C
Kansas	22	C	27	C	4	A	15	B
Kentucky	34	C	44	D	47	F	47	F
Louisiana	49	F	47	F	49	F	50	F
Maine	4	A	21	C	14	B	7	A
Maryland	3	A	6	A	16	B	3	A
Massachusetts	37	D	2	A	23	C	21	C
Michigan	50	F	16	B	18	B	27	C
Minnesota	18	B	10	A	30	C	18	B
Mississippi	28	C	46	F	50	F	46	F
Missouri	47	F	23	C	44	D	40	D
Montana	44	D	48	F	35	C	48	F
Nebraska	6	A	31	C	13	B	12	B
Nevada	2	A	19	B	1	A	1	A
New Hampshire	8	A	8	A	7	A	2	A
New Jersey	26	C	2	A	5	A	5	A
New Mexico	24	C	50	F	40	D	40	D
New York	32	C	15	B	48	F	37	D
North Carolina	12	B	28	C	21	C	19	B
North Dakota	34	C	33	C	21	C	30	C
Ohio	45	D	21	C	28	C	35	C
Oklahoma	40	D	45	D	29	C	40	D
Oregon	19	B	24	C	3	A	11	B
Pennsylvania	32	C	7	A	12	B	13	B
Rhode Island	41	D	5	A	8	A	16	B
South Carolina	14	B	29	C	23	C	23	C
South Dakota	24	C	43	D	20	B	29	C
Tennessee	20	B	38	D	34	C	34	C
Texas	39	D	33	C	43	D	43	D
Utah	10	A	31	C	10	A	13	B
Vermont	14	B	14	B	27	C	17	B
Virginia	16	B	12	B	33	C	19	B
Washington	5	A	12	B	25	C	8	A
West Virginia	48	F	40	D	46	F	49	F
Wisconsin	22	C	19	B	2	A	9	A
Wyoming	30	C	41	D	17	B	30	C

The Economic Performance Index

THE BOTTOM LINE

The moment of truth for any shopkeeper is "closing out the register" at the end of the day. For larger businesses, it's the weekly or monthly sales figures. For major corporations, it's the quarterly report. The stark reality of sales figures and production costs cuts through the fog of business so decisively that it has worked its way into the vocabulary of daily life: *the bottom line*, the thing that matters when all is said and done.

If you're "on plan" — or, better yet, "ahead of plan" — sales figures can be deeply gratifying, a dollars and cents ratification of everything you have worked hard to achieve. If you're "behind plan," sales figures can precipitate anguished cycles of second-guessing, contingency planning and restructuring. But sales figures don't tell the whole story. They don't tell you anything about what it cost to achieve those sales, and they don't tell you whether important investments are being made to assure long-term sales growth. Stock market analysts, stockholders, even corporate board members tend to focus extraordinary attention on short-term financial data, criticizing and often penalizing management when net earnings fall below expectations. Consequently, management has a powerful incentive to manipulate financial data and investment needs into the next quarter. The net result of this financial myopia is the corporate equivalent of rearranging the deck chairs on the Titanic: while management scram-bles to put the best face on things, real return on investment — and competitiveness — decline.

The brutal realities of global competition, however, have persuaded some American corporations to look beyond traditional accounting procedures and focus their attention on such other performance factors as quality (and, therefore, workforce skill), customer satisfaction, productivity enhancements, and revised labor-management arrangements.

But in the public sector, the fortunes of governors, mayors and their development staffs continue to rise or fall with the public equivalent of private sales figures: numbers of jobs created or lost, companies recruited, expanded or closed, and the like. These *are* important indicators of a state's economic health. But, like quarterly reports, there are two problems with focusing exclusively on these "sales figures." First, how much you sell is less important than how much you make. Using only employment figures to characterize the health of an economy neglects other equally important figures, like wage levels, the distribution of job opportunities, or the quality of life. Second, job creation figures tell us little about the true "return on investment" of the taxpayers' dollars — the underlying competitive strengths and weaknesses of a state's economy that determine, for example, how well it can weather a recession. No short-term job gains can overcome basic weaknesses in the state's economic "fundamentals."

The Economic Performance Index, therefore, is a thorough review of a state's "profits and losses" — a bit like an extended

end-of-year meeting with your accountant. This year, we examine 21 individual measures gathered into four subindexes:

- *Employment*: the extent to which the economy is providing jobs for those who seek them.
- *Earnings and Job Quality*: how well people are compensated for the work they do.
- *Equity*: the extent to which the opportunity to attain a higher standard of living is widely shared.
- *Environmental, Social and Health Conditions*: a rough measure of the overall quality of life in areas where people live when they're not working. (Please note that, because these conditions are still too imprecise to characterize overall quality of life, we do not include them in grading the states.)

ECONOMIC PERFORMANCE INDEX FINDINGS

It's been a tough year for states. The recession was taking its toll in jobs and income long before its existence was acknowledged officially. And yet the Performance Index illustrates that even in New England, where the recession hit first, the picture is much more complex than the "sky is falling" impression you get from the news.

National booms and busts have a peculiar habit of beginning in New England and then lumbering westward, and this recession is no exception. The collapse of a wildly speculative real estate market, sharp declines in some defense industries, and repositioning in the computer industry created a rash of job losses and business failures in New England. Although it is home to only 5.5 percent of the nation's population, the region accounted for roughly one-fifth of the jobs lost nationwide in the past two years — more than a quarter of a million.

Of the six New England states, three lost ground in the Performance Index this year. Massachusetts, a bellwether state in good times and bad, fell the furthest, dropping from an *A* to a *C*, from 4th to 21st place. Rhode Island and Vermont both dropped from *A* to *B*, falling 9 and 12 places respectively. Connecticut and New Hampshire managed to hold last year's *A* positions, at 10th and 2nd, respectively. And, bucking the trend, Maine rose from 12th last year to 7th this year, a *B* to an *A*, on the strength of an economy that is increasingly composed of professional services and small specialty manufacturing companies, and less driven by computers and real estate speculation than are its neighbors to the south. But Connecticut, Maine and New Hampshire are losing their battles with the recession; in the months since the September 1990 closing period for the Performance Index employment data, unemployment rates have risen steadily in all three states, and the region's spiralling banking crisis now threatens even healthy firms.

To the west, the industrial states ringing the Great Lakes already have begun to feel the chill from New England. Having steadily regained competitive strength following the last recession, these states are struggling against this year's, some more successfully than others. Illinois, Michigan, Pennsylvania and Wisconsin have improved slightly, but Indiana, Minnesota and Ohio have dropped, some sharply. The bad news for these states shows up in the Employment Subindex, where all but one of declined. The good news is that the jobs that remain pay well, so their overall performance picture is better than employment figures alone might suggest.

The bottom of the Performance Index rankings has little to do with the recession; it is dominated by states that have occupied the *D* and *F* grade categories for several years — from the Deep South and Great Plains. The former group continues to battle the related legacies of chronic poverty and inadequate investment in growth fundamentals. The latter group continues to be held back by economies heavily dependent upon energy and mineral extraction. (The data do not reflect the fluctuation of oil prices surrounding the Gulf War.) Eleven of the 14 states with either *D* or *F* grades in Performance this year earned similar grades last year; most have been at or near the bottom of this Index ever since the *Report Card* was first published five years ago.

The leaders in the Economic Performance Index this year appear at first glance to have little in common. They are geographically diverse and have widely varying

economic structures. Dig deeper, however, and you discover that they share one significant characteristic: booming metropolitan economies. Fourteen of the top 20 states had cities in the top 50 of *Inc.* magazine's 1990 list of America's most entrepreneurial cities, and all had a city in the top 100 of *Inc.*'s 1989 or 1990 list, or both. (*Inc.*'s metro list is based on job generation, rate of significant new business start-ups, and the percentage of young companies enjoying high growth rates.) In some of these states — Delaware, Minnesota, Nevada, Utah and Washington, for example — a single metropolitan region so dominates the state's economy that it is very nearly the only game in town. In others — California, Maryland, Massachusetts, North Carolina and Virginia — two or more metro economies swamp the rest of the state's economic figures. Perhaps not surprisingly, there are significant disparities between urban and rural incomes in several of these states. (See Equity Subindex below.) But this situation is by no means universal. Despite the dominance of their metro regions, quite a few of these Index leaders manage a better than average balance between urban and rural areas.

EMPLOYMENT SUBINDEX FINDINGS

What a difference a year makes. Last year, the complex economies of the Northeast and Midwest held strong positions in the Employment Subindex. This year, several are in a virtual free-fall. Recession-driven layoffs in the auto industry and related sectors have hit the industrial heartland especially hard: Michigan dropped from 39th (*D*) to last place (*F*), Ohio from 36th (*D*) to 45th (*D*), Indiana from 9th (*A*) to 29th (*C*). They join the still-depressed energy and mineral economies of Louisiana, West Virginia, Alaska, Montana, Oklahoma and Texas, among others, at the bottom of this Subindex.

In New England, defense contract cutbacks and sharp declines in the real estate, computer and financial services industries drove Rhode Island from 8th (*A*) to 41st (*D*) place, Massachusetts from 19th (*B*) to 37th (*D*), and Connecticut from 29th (*C*) to 38th (*D*). Even New Hampshire fell, from 1st to 8th place. Maine rose from 13th (*B*) to 4th (*A*), but probably will not be able to hold that position: its unemployment rate has grown steadily in recent months

The unifying characteristic of the states at the top of this Subindex is rapid population growth: 15 of the top 17 states grew more than 10 percent in the last decade, according to the 1990 Census. With only a few exceptions, the leaders have robust technology- and professional services-intensive economies that have both led and benefitted from the economic recovery of the mid- to late-1980s.

But a closer look at the individual measures that comprise the Subindex rankings suggests that some top states are already having difficulty maintaining their position. Several — including Arizona, California, Florida, Georgia, Maine, New Hampshire, Oregon and Washington — tend to have very good long-term, but deteriorating short-term employment records. New Hampshire, for example, ranks 6th and 1st, respectively, in long-term employment growth and the length of time unemployed people have been out of work. But it ranks only 25th and 20th, respectively, in short-term employment growth and current unemployment — clear signs of economic slowdown. We can document the very recent health of the Boeing Corporation and the economy of Washington in much the same way: Washington ranks first nationwide in both long- and short-term employment growth, and 13th in duration of unemployment — enviable statistics. But its recent unemployment rate placed it only 33rd in the nation and unemployment in the past quarter has grown as Boeing's fortunes have declined. Canceled orders and postponed deliveries for new aircraft suggest weaker employment performance to come.

EARNINGS AND JOB QUALITY SUBINDEX FINDINGS

The leaders in the Earnings and Job Quality Subindex represent a kind of "Who's Who" in value-added manufacturing. Virtually without exception, states earning *A* or *B* grades are America's industrial leaders. That's where the highest value is created, and it's also where the highest wages are paid. Unionization appears to be more an effect in these rankings than a cause. In essence, the more advanced the industrial structure, the higher the rankings in this Subindex. Thus, Massachusetts and New Hampshire, with heavily technology-oriented economies, regardless of level of unionization,

score high, while Michigan and Ohio, with high levels of unionization but an industrial structure that's still retooling, score much lower. There are a few exceptions to this value-added rule at the top, including high cost of living states like Alaska and Hawaii, and the unique "gaming" economy of Nevada.

In contrast, the states earning *D* and *F* in this Subindex tend to be the low value-added manufacturing as well as agricultural, mining and energy producing states of the Deep South, Appalachia, Great Plains and Intermountain West. Because the value added to the products and commodities before they leave these states is minimal, wages are correspondingly low.

Overall, the Subindex standings changed little from last year. Exceptions are Arizona, which declined sharply because of a slump in manufacturing assembly operations, and Washington, which jumped up 18 places on the strength of a strike settlement at Boeing that cascaded through its economy.

EQUITY SUBINDEX FINDINGS

It's one thing to know whether your company's sales are good, and quite another to know where they're coming from. If the Employment and Earnings Subindexes are like profit and loss figures for a company, the Equity Subindex is like a report on a region's profit and loss performance from the regional manager. It tells us how well opportunities for jobs and income are distributed within a state. This year, the Equity Subindex is updated by new Current Population Survey data and a revised method for reporting rural-urban disparity.

Fifteen of the states earning *A* or *B* in Equity also earned similar grades in the Employment and Earnings Subindexes, suggesting that the opportunity to benefit from the jobs being created in these states is relatively well-distributed through the population. Several farm states — Indiana, Iowa, Kansas, Nebraska and Wisconsin — also do well.

Likewise, 11 of the 14 states rating *D* or *F* in the Equity Subindex earned similar grades in the Employment or Earnings Subindexes, or both, suggesting that conditions are difficult across the board in those states. A not surprising exception is New York, where wide disparities between rich and poor are not only common, but have been the stuff of Hollywood screenplays for decades.

Between these extremes is a range of states with reasonably healthy economies in which the opportunity to earn a living simply is not well distributed — either geographically between urban and rural areas, or demographically throughout the population.

ECONOMIC PERFORMANCE MEASURES

SUBINDEX ONE: EMPLOYMENT

We begin with the basics, and the most basic measure of the economic health of a state is whether people can find work. We use four measures of employment in this Subindex: long-term employment growth, short-term employment growth, the unemployment rate, and duration of unemployment.

■ ***Long-Term Employment Growth:*** In any state economy, jobs are being created or eliminated continuously. The more energetic and adaptive the economy, the more this is true. Measuring job growth does not tell us if the jobs being created pay as well as those being eliminated, or who is getting the new jobs, or, for that matter, whether employment growth isn't simply a reflection of population growth. But it does tell us how quickly an economy is expanding, a key indicator of economic health.

This year, we have improved our measures of employment growth by shifting the annual time periods we examine from a calendar year (January to December) to a federal fiscal year (October to September). By making this change, we are able to provide more current economic information, rather than having to rely on available calendar year data which is more than a year old when we put together our report. Here we examine the state's long-term employment growth trend over a portion of the business cycle — a five year period.

■ ***Short-Term Employment Growth:*** To reflect the effect of recent events on the long-term

trend uncovered by long-term employment growth, we measure short-term employment growth over the past year.

■ ***Unemployment Rate:*** Even if a state's economy is expanding, some people will be left behind. The most accepted measure of the mismatch between the numbers of jobs and job-seekers is the unemployment rate — the number of people looking for work or waiting to be called back to a job from which they have been laid off.

Here too, the measure is imperfect. It doesn't tell us anything, for example, about those who have never been a part of the labor force or who have become so discouraged by their inability to find work that they have stopped looking entirely. But despite these flaws, this is the best measure currently available.

■ ***Unemployment Duration:*** We need to know more than simply *how many* people are unemployed; we need to know *how long* they have been in that position. Unemployment can occur for a variety of reasons, not all of them negative. Indeed, a worker's ability to move from one job to another can indicate the range of opportunity the state offers or the flexibility of the worker's skills. Long-term unemployment, on the other hand, may indicate that the economy is failing to produce jobs, that the jobs being created and the skills of the workforce don't match, or that the hiring of some kinds of workers is being restricted in some way. This indicator measures those who have been jobless for more than 27 weeks — the point at which unemployment benefits normally expire. Once again, because only those still looking for work are counted as unemployed, we do not have a way to identify those who have given up and dropped out.

SUBINDEX TWO: EARNINGS AND JOB QUALITY

The issue of whether America's economic restructuring is replacing well-paid, low-skill jobs with low-paying, moderate-skill jobs is of critical importance in evaluating the national economy's performance. This Subindex explores this issue — that is, it augments the Employment Subindex by going beyond *how many* jobs are being created to gauge *how good* they are — in terms of wages and benefits. Here we measure average annual pay, changes in average annual pay, and the only job-related benefit for which data are readily available, health coverage.

■ ***Average Annual Pay:*** Average annual pay — that is, the total annual pay of all employees covered by unemployment insurance, divided by the average number of employees — provides a clearer picture of what working people can expect to earn from their jobs than does another commonly used figure, personal income per capita. That's because the first is based only upon the number of people in the state who actually are working, not the total number of people in the state — and because it excludes income received off the job. Moreover, these payroll data include bonuses, tips and gratuities, paid vacation, and employer contributions to deferred compensation plans, among other things — not just wages.

With few exceptions, all full-time and part-time employees in covered firms are reported, including production and sales workers, corporation officials, executives, supervisory personnel and clerical workers. Excluded, due to limits in the data, are agricultural workers on small farms, most railroad employees, most non-profit organization employees, self-employed workers and all members of the Armed Forces.

■ ***Average Annual Pay Growth:*** This measure converts the point-in-time "snapshot" of average annual pay into trend data, measuring the change from 1988 to 1989. Like employment growth, this measure aims to portray how much improvement, if any, is occurring in each state's economy. We considered including long-term pay growth as well, but found such a high correlation between the two that they were redundant and would have overweighted this aspect of job quality.

■ ***Health Coverage:*** If one objective of economic development is to help individuals achieve a better life, then we need to know something about the *quality* of the jobs that the economy is creating. Many new jobs in today's economy are not providing the benefits that American workers have come to expect as part of their compensation for working. Understanding the extent to which state economies are meeting the benefit needs of their citizens is one important clue to job quality, and it varies significantly from state to state.

Of these benefits, employer-sponsored health coverage is perhaps the most important. In 1988, roughly 25 percent of the non-elderly civilian population had no private or employer-sponsored health coverage. Moreover, just under 16 percent had no health coverage whatsoever, including public coverage like Medicare. In recent years, there has not been a significant change in the level of uninsured adults reported, though the health coverage of children has improved slightly.

SUBINDEX THREE: EQUITY

Asking the question, "How is the economy doing?" begs another question: "For whom?" Any evaluation of a state economy must be based not just upon the gross employment and income in the state, but upon the distribution of opportunities to gain employment and income as well. An economy is only as strong as its weakest link. The distribution of opportunity — how widely it is shared — has significant impact on how vital and attractive a state's economy seems to others, because the effects of inequitable distribution are often only too visible: poverty, crime, blighted neighborhoods, social discord, diminished productivity and wasted human talent.

Thus, the performance of a state economy is determined in no small part by how economic change affects the least advantaged, and by the extent to which the best jobs in the state are equitably distributed among its populace. To measure how widely-shared economic opportunity is, we look at the poverty rate, the distribution of income among the people in the state, the change in the distribution of income, and rural/urban disparities in employment and earnings.

■ ***Poverty Rate:*** The number of individuals in a state who live below the federally-established poverty line presents a concrete measure of performance in general, and equity in particular. An economy with a high percentage of people below this line — whether they work or not — is not fulfilling its basic purpose of providing people with opportunities for a better life.

■ ***Income Distribution:*** To measure how income is spread within a state from the most wealthy to the most poor, we compare the median income of the wealthiest 20 percent of families with the median income of families in the poorest 20 percent. The greater the variation, the less equitable the distribution of income.

■ ***Income Distribution Change:*** To capture a sense of whether economic development is increasing or decreasing people's opportunities to obtain the elements of a better life, we examine how the ratio between the median income of families in the top 20 percent and the bottom 20 percent (in terms of family income) changed from the mid- to the late 1980s.

■ ***Rural/Urban Disparity:*** Economic development also needs to be shared widely across places in a state. The reversal of fortunes in rural areas was a major development in the 1980s. Many state development officials have noted that their states have two economies, one urban and generally thriving, the other rural and generally stagnant or declining. There are obvious exceptions: many central cities at the heart of booming metropolitan areas are economic wastelands, while some rural areas have found ways to diversify and thrive. This measure presents a composite score of the disparities between urban and rural areas in a state for long-term employment growth, short-term employment growth, the unemployment rate, average earnings and earnings growth.

Please see *Appendix A* for more discussion of this measure.

SUBINDEX FOUR: ENVIRONMENTAL, HEALTH AND SOCIAL CONDITIONS

As the structure of the American economy has changed, the things that are most important to the people and businesses in that economy have also changed. Increasingly, studies show that "quality of life" is a driving factor in the decisions people make about where to raise a family or build a business. But what does quality of life mean? Clearly, when people talk about the quality of life in a state, they are talking about more than just environmental amenities. They include a wide but still unfocused array of social, economic and psychological factors, from efforts to enhance and protect the environment, to cultural opportunities, public facility maintenance and, simply, whether the area seems safe. We measure

some of these concerns elsewhere in the Development Capacity and State Policy Indexes. But here, as with other Economic Performance Index measures, we are concerned about *outputs* — in this case: environmental quality, health, safety and social conditions.

As in previous years, we have concluded that the data available to measure these outputs simply do not accurately portray the most important elements of quality of life. Particularly with respect to basic environmental issues — drinking water quality, for example — the available data are either fragmentary or misleading. Moreover, the available measures tend to illustrate population density, rather than environmental quality. Consequently, we choose to display with some confidence the results of the measures we *were* able to compile as an Environmental, Health and Social Conditions Subindex. But, as in prior years, we do *not* include them in the calculation of the state Economic Performance grade.

ENVIRONMENTAL QUALITY

An economy that produces a high degree of environmental pollutants is neither "attractive" to new business nor to workers and families. To gauge the environmental quality of states, we examine four factors. We use these factors not because they represent the full range of environmental quality concerns, but because they are the only factors for which we can collect consistent state-by-state nationwide data. Many other elements are needed to portray accurately the quality of the environment. As it currently stands, these measures tend more to portray how densely populated a state is, not how high or low its environmental quality is.

- ***Air Quality:*** the degree to which state residents live in areas that exceeded national ambient air quality standards for ozone and/or carbon monoxide.

- ***Superfund Dumpsites:*** the number of Superfund dumpsites in the state, adjusted for population.

- ***Hazardous Waste Generation:*** the amount of hazardous waste generated per person in the state.

- ***Surface Water Discharge:*** the percent of the major public and private concerns in the state that discharge which are seriously out of compliance with the established water quality standards that their permits specify.

SOCIAL CONDITIONS

At the most rudimentary level, the quality of life in a state or region can be gauged by whether people — adults and children alike — are safe from harm. To obtain an rough understanding of general safety, we examine three factors.

- ***Infant Mortality:*** Infant mortality rates are commonly used to measure the health of the population for reasons that go beyond the death of infants. Infant mortality correlates highly with the health and nutrition of the mother, which, in turn, provides us with some insight about living conditions for families and the accessibility of prenatal care services.

- ***Crime Rate:*** The higher the crime rate — whether it affects people personally or not — the less safe people are likely to feel. This crime rate, drawing on FBI data, addresses the most serious crimes: murder, rape, robbery, assault, burglary, larceny and motor vehicle theft.

- ***Teen Pregnancy:*** Teenage births have soared in recent years, pointing to problems in family structure and in the ability of young mothers to gain the skills needed to be competitive workers in today's economy.

HEALTH

The health of a state's people is a critical dimension of overall quality of life. In the past, we have always examined measures concerning the access or availability of health services in a state in the Development Capacity Index. This year, we supplement this look at health capacity by asking the question: "How healthy are your people?" To begin an answer, we look at the burden that diseases and illnesses place on the overall health of a population.

- ***Heart Disease:*** a population-adjusted rate for deaths due to coronary heart disease.

- ***Cancer Cases:*** the incidence of all types of cancer except some skin cancers.

- ***Infectious Disease:*** occurrence of AIDS, tuberculosis and hepatitis in the state.

These measures of disease are not perfect — not all can be age-adjusted and the accuracy across states in reporting these illnesses may not be the same — but they do provide an idea of the effect of disease on a state's population.

Economic Performance Data

EMPLOYMENT

	Emp. Growth Long-Term		Emp. Growth Short-Term		Unemployment Rate		Unemployment Duration	
	%	Rank	%	Rank	%	Rank	%	Rank
Alabama	8.68	31	0.06	41	6.8	45	10.1	31
Alaska	5.79	40	1.94	13	7.0	47	12.2	43
Arizona	18.64	4	1.15	26	5.0	21	5.2	3
Arkansas	11.52	20	0.92	28	6.8	45	11.0	37
California	16.03	8	1.54	21	5.2	26	8.2	21
Colorado	1.33	46	3.09	4	5.1	22	11.3	39
Connecticut	4.84	42	0.03	43	4.8	19	9.7	29
Delaware	17.22	5	0.66	31	4.1	7	5.5	8
Florida	19.45	3	2.08	11	5.9	39	6.3	11
Georgia	15.02	10	1.67	19	5.4	28	7.0	13
Hawaii	15.80	9	2.16	9	2.7	2	5.9	9
Idaho	9.45	26	1.68	18	5.4	28	7.4	16
Illinois	9.71	24	0.58	33	6.2	40	12.8	44
Indiana	8.41	32	-1.44	48	5.5	33	5.3	4
Iowa	10.79	21	-0.80	45	4.3	10	12.8	44
Kansas	6.52	38	1.52	22	4.0	6	9.0	26
Kentucky	7.67	33	2.48	8	5.7	37	14.6	48
Louisiana	0.46	48	1.74	17	6.7	44	19.3	50
Maine	14.25	11	1.93	14	4.5	14	5.3	4
Maryland	14.03	13	1.42	23	3.7	4	5.1	2
Massachusetts	2.18	44	-2.08	49	5.4	28	6.0	10
Michigan	9.26	28	0.04	42	7.5	49	12.0	42
Minnesota	8.87	29	1.92	15	4.4	13	9.5	28
Mississippi	9.45	26	2.56	7	7.3	48	10.4	33
Missouri	8.80	30	0.36	38	5.6	36	13.7	46
Montana	2.10	45	-0.63	32	5.5	33	11.0	37
Nebraska	6.89	35	3.39	3	2.5	1	6.7	12
Nevada	24.95	2	3.98	2	4.7	16	7.8	18
New Hampshire	17.17	6	1.24	25	4.9	20	4.2	1
New Jersey	6.57	37	0.53	35	4.7	16	8.5	23
New Mexico	12.97	15	1.95	12	6.2	40	10.2	32
New York	7.66	34	0.57	34	5.1	22	10.5	34
North Carolina	12.64	16	0.50	36	3.6	3	7.3	15
North Dakota	0.29	49	-1.30	47	4.1	7	8.5	23
Ohio	9.71	24	0.18	40	5.7	37	14.4	47
Oklahoma	0.53	47	1.40	24	5.4	28	11.4	40
Oregon	16.70	7	0.75	30	5.4	28	8.3	22
Pennsylvania	10.11	22	0.20	39	5.1	22	11.7	41
Rhode Island	3.79	43	-3.06	50	6.3	43	5.3	4
South Carolina	14.08	12	2.13	10	4.7	16	10.5	34
South Dakota	6.21	39	0.50	36	3.8	5	8.0	19
Tennessee	9.92	23	1.86	16	5.1	22	9.1	27
Texas	5.37	41	0.98	27	6.2	40	9.9	30
Utah	12.44	17	2.59	6	4.5	14	8.6	25
Vermont	13.34	14	-0.03	44	4.3	10	5.3	4
Virginia	12.41	18	0.78	29	4.1	7	8.1	20
Washington	25.27	1	4.75	1	5.5	33	7.0	13
West Virginia	6.68	36	1.56	20	8.1	50	18.0	49
Wisconsin	12.33	19	-0.98	46	4.3	10	7.6	17
Wyoming	-2.44	50	2.80	5	5.3	27	10.9	36

Please refer to *Economic Performance Data Sources* and *Economic Performance Index* for further details on individual measures.

PERFORMANCE

Economic Performance Data

EARNINGS & JOB QUALITY

EQUITY

	Average Annual Pay		Avg. Annual Pay Growth		Health Coverage		Poverty Rate		Income Distribution		Income Dist. Change		Rural/Urban* Disparity	
	$	Rank	%	Rank	%	Rank	%	Rank	Ratio	Rank	%	Rank	Score	Rank
Alabama	19,593	32	3.1	22	69.9	42	21.62	46	11.40	47	5	15	117	23
Alaska	29,704	1	6.0	1	64.3	47	11.02	16	9.63	38	-10	45	160	45
Arizona	20,808	25	2.1	48	72.0	39	13.60	32	8.91	27	-4	33	149	39
Arkansas	17,418	46	2.3	39	65.9	45	21.84	48	10.47	43	-4	33	103	14
California	24,921	6	3.3	20	67.7	43	12.73	27	9.24	32	-4	33	130	31
Colorado	21,940	14	2.2	45	76.8	30	12.72	26	10.05	41	-15	48	123	29
Connecticut	27,500	2	4.8	4	86.2	1	6.31	2	7.33	9	-2	26	81	6
Delaware	23,268	10	5.9	2	80.8	17	9.82	11	8.30	20	-11	46	125	30
Florida	20,072	28	2.8	27	70.1	41	12.46	24	8.95	28	0	22	102	13
Georgia	21,071	22	2.8	27	73.0	35	14.44	35	10.29	42	-7	42	138	35
Hawaii	21,624	17	5.8	3	79.0	21	9.67	10	7.21	7	2	18	137	34
Idaho	18,146	44	2.8	27	76.0	32	15.35	37	8.43	22	-3	29	133	33
Illinois	24,211	8	2.6	32	78.9	22	13.03	31	9.51	36	3	17	160	45
Indiana	20,931	23	2.4	37	81.0	16	11.21	17	7.53	11	2	18	59	2
Iowa	18,420	43	2.7	30	86.2	1	12.80	28	7.33	10	27	1	111	18
Kansas	19,474	35	2.3	39	85.4	4	9.66	9	6.65	2	14	3	120	26
Kentucky	19,001	40	2.5	35	70.9	40	17.82	43	9.56	37	-6	40	151	40
Louisiana	19,750	30	2.2	45	59.0	49	22.49	49	15.02	50	-18	49	112	19
Maine	19,202	39	4.7	5	77.8	27	11.65	20	7.63	13	-2	26	68	4
Maryland	23,466	9	4.2	10	81.3	14	8.27	4	7.75	17	7	10	154	42
Massachusetts	25,233	5	4.5	8	82.4	10	8.88	7	8.40	21	-3	29	154	42
Michigan	24,853	7	2.7	30	80.7	18	12.90	30	8.98	29	11	7	106	15
Minnesota	22,155	12	3.1	22	84.7	12	11.40	19	8.63	24	-3	29	160	45
Mississippi	17,047	48	3.2	21	64.2	48	25.83	50	12.62	49	-25	50	172	49
Missouri	20,899	24	3.0	24	78.4	25	14.52	36	9.28	34	-11	46	146	38
Montana	17,224	47	1.6	49	73.4	34	16.76	41	9.26	33	-1	24	130	31
Nebraska	17,694	45	2.9	25	81.2	15	12.49	25	7.29	8	16	2	121	27
Nevada	21,342	20	3.9	12	72.5	38	9.05	8	7.07	4	14	3	84	8
New Hampshire	21,551	19	3.9	12	84.2	7	4.59	1	6.24	1	-4	33	95	11
New Jersey	26,780	4	4.0	11	84.1	8	8.08	3	8.24	19	1	20	5	1
New Mexico	18,667	42	2.2	45	58.6	50	20.55	45	10.97	45	6	12	152	41
New York	27,303	3	3.6	18	74.9	33	13.62	33	10.99	46	-5	38	157	44
North Carolina	19,320	37	3.7	17	78.1	26	13.66	34	8.90	26	-3	29	75	5
North Dakota	16,932	49	2.6	32	85.3	6	12.25	23	7.70	15	12	6	203	50
Ohio	21,986	13	2.3	39	80.4	19	12.86	29	8.44	23	-5	38	114	20
Oklahoma	19,530	33	2.3	39	66.8	44	16.63	40	9.90	40	4	16	106	15
Oregon	20,303	26	3.4	19	76.9	29	11.84	21	7.15	5	14	3	81	6
Pennsylvania	22,312	11	3.8	16	82.6	9	10.17	13	7.60	12	6	12	115	21
Rhode Island	21,128	21	4.6	6	85.6	3	8.79	6	7.64	14	6	12	106	15
South Carolina	18,797	41	4.4	9	76.3	31	16.00	39	9.04	30	10	8	116	22
South Dakota	15,810	50	2.5	35	77.7	28	15.88	38	9.18	31	1	20	65	3
Tennessee	19,712	31	2.6	32	72.6	37	18.42	44	9.66	39	0	22	117	23
Texas	21,740	16	2.9	25	65.7	46	17.69	42	10.85	44	-4	33	122	28
Utah	19,362	36	2.4	37	81.7	12	10.81	15	6.73	3	-1	24	89	10
Vermont	19,497	34	4.6	6	81.8	11	10.16	12	7.73	16	-9	44	145	37
Virginia	21,879	15	3.9	12	78.7	23	10.37	14	9.41	35	-6	40	142	36
Washington	21,617	18	3.9	12	79.2	20	11.33	18	8.73	25	7	10	169	48
West Virginia	19,789	29	2.3	39	72.8	36	21.62	46	11.53	48	-7	42	117	23
Wisconsin	20,204	27	2.3	39	85.4	4	8.61	5	7.20	6	8	9	85	9
Wyoming	19,230	38	0.7	50	78.7	23	11.84	21	7.85	18	-2	26	95	11

* See *Appendix A* for more information on this measure.

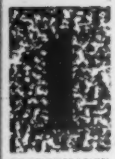
ENVIRONMENTAL, SOCIAL AND HEALTH CONDITIONS*

ENVIRONMENTAL QUALITY

Air Quality		Superfund Dump, per mil. pop.		Hazardous Waste tons per capita		Surface Water Discharge		
Score	Rank	Sites	Rank	#	Rank	%	Rank	
0.29	18	2.91	12	1.61	43	10	26	Alabama
0.57	36	11.32	46	0.09	1	0	1	Alaska
0.53	32	2.81	9	0.30	7	3	6	Arizona
0.04	10	4.15	22	1.60	42	13	39	Arkansas
1.06	46	2.96	13	0.60	20	7	15	California
0.69	40	4.82	30	0.46	14	5	10	Colorado
0.46	30	4.63	29	1.25	34	18	47	Connecticut
0.16	14	29.85	50	1.39	39	6	13	Delaware
0.15	13	4.03	21	0.24	4	4	8	Florida
0.40	26	2.02	6	0.53	17	9	22	Georgia
0.00	1	0.90	2	0.16	2	4	8	Hawaii
0.00	1	8.91	41	1.29	35	3	6	Idaho
0.58	37	3.09	16	1.33	37	10	26	Illinois
0.34	23	6.26	33	1.75	46	26	49	Indiana
0.00	1	7.04	36	0.65	21	9	22	Iowa
0.22	17	4.38	26	1.00	29	9	22	Kansas
0.44	28	4.56	27	1.23	33	14	42	Kentucky
0.16	14	2.51	7	3.05	50	12	36	Louisiana
0.35	24	7.38	37	0.26	5	8	20	Maine
1.63	50	1.92	5	0.67	23	5	10	Maryland
1.11	49	4.23	24	0.73	25	13	39	Massachusetts
0.55	33	8.41	40	1.29	35	15	44	Michigan
0.56	35	9.66	43	0.46	14	14	42	Minnesota
0.04	10	0.76	1	1.06	30	19	48	Mississippi
0.55	33	4.26	25	1.13	32	11	30	Missouri
0.10	12	9.88	44	0.77	27	0	1	Montana
0.00	1	3.73	20	0.27	6	7	15	Nebraska
0.72	41	0.90	2	0.37	10	11	30	Nevada
0.32	20	14.41	49	0.41	12	11	30	New Hampshire
0.33	21	14.08	48	1.74	44	12	36	New Jersey
0.31	19	6.54	34	0.38	11	11	30	New Mexico
1.10	47	4.62	28	0.52	16	10	26	New York
0.66	39	3.35	19	0.53	17	17	46	North Carolina
0.00	1	3.03	15	0.35	9	0	1	North Dakota
0.80	45	3.02	14	1.74	44	37	50	Ohio
0.00	1	3.11	17	0.72	24	8	20	Oklahoma
0.50	31	2.84	11	0.33	8	2	5	Oregon
1.10	47	7.89	38	1.47	40	9	22	Pennsylvania
0.63	38	11.00	45	1.56	41	12	36	Rhode Island
0.21	16	6.55	35	1.07	31	7	15	South Carolina
0.00	1	4.17	23	0.21	3	10	26	South Dakota
0.72	41	2.83	10	2.70	48	11	30	Tennessee
0.42	27	1.65	4	2.03	47	13	39	Texas
0.75	43	5.26	31	0.58	19	7	15	Utah
0.00	1	14.04	47	0.41	12	6	13	Vermont
0.78	44	3.28	18	0.75	26	7	15	Virginia
0.44	28	9.45	42	1.35	38	11	30	Washington
0.33	21	2.69	8	2.95	49	15	44	West Virginia
0.35	24	8.01	39	0.65	21	5	10	Wisconsin
0.00	1	6.25	32	0.97	28	0	1	Wyoming

Please refer to *Economic Performance Data Sources* and *Economic Performance Index* for further details on individual measures.

* Information subindex only. This data was not used to calculate the *Economic Performance Index* grades.



PERFORMANCE

Economic Performance Data

ENVIRONMENTAL, SOCIAL AND HEALTH CONDITIONS*

	SOCIAL CONDITIONS						HEALTH					
	Infant Mortality per 100M births		Crime Rate per 100 pop.		Teen Pregnancy per 1000		Heart Disease per 100M pop.		Cancer per 100M pop.		Infectious Dis. per 100M pop.	
	Deaths	Rank	Rate	Rank	Rate	Rank	Deaths	Rank	Rate	Rank	Rate	Rank
Alabama	12.1	46	4.63	21	63	39	183.1	29	443	33	27.5	17
Alaska	11.6	44	4.78	23	55	33	167.5	19	206	1	191.6	50
Arizona	9.7	25	8.06	49	71	46	149.5	5	389	12	131.0	49
Arkansas	10.7	35	4.56	20	69	43	187.4	34	469	43	33.8	23
California	8.6	12	6.76	46	61	35	163.9	14	368	9	75.2	45
Colorado	9.6	24	6.04	38	49	24	144.6	2	289	4	39.8	29
Connecticut	8.9	17	5.27	30	36	7	167.2	17	459	41	35.4	25
Delaware	11.8	45	4.87	24	54	31	188.4	37	459	41	60.9	39
Florida	10.6	34	8.80	50	62	38	157.4	8	545	50	69.6	43
Georgia	12.6	50	7.07	47	73	49	187.2	33	376	10	49.9	35
Hawaii	7.2	2	6.27	41	46	18	151.9	6	308	6	63.5	40
Idaho	8.8	16	3.93	10	45	16	167.5	19	346	8	37.4	27
Illinois	11.3	42	5.64	35	54	31	193.0	41	427	27	33.0	22
Indiana	11.0	39	4.44	18	52	29	186.7	31	439	32	22.5	14
Iowa	8.7	14	4.08	12	35	6	167.5	19	457	39	12.8	4
Kansas	8.0	6	4.98	25	51	28	160.5	12	408	18	21.4	12
Kentucky	10.7	35	3.32	4	61	35	202.6	49	448	34	28.8	18
Louisiana	11.0	39	6.24	40	70	44	197.1	46	413	20	35.2	24
Maine	7.9	4	3.58	7	41	11	192.1	40	475	44	16.9	7
Maryland	11.3	42	5.56	33	49	24	186.9	32	434	30	71.0	44
Massachusetts	7.9	4	5.14	27	34	5	173.5	24	484	45	36.3	26
Michigan	11.1	41	5.97	37	47	20	199.6	48	411	19	21.3	11
Minnesota	7.8	3	4.38	17	31	1	147.4	4	395	14	14.4	5
Mississippi	12.3	47	3.52	6	76	50	196.2	44	415	22	26.2	16
Missouri	10.1	30	5.13	26	56	34	175.1	25	457	39	45.0	32
Montana	8.7	14	4.00	11	41	11	153.0	7	406	16	23.0	15
Nebraska	9.0	19	4.09	13	38	8	164.3	15	419	24	11.7	3
Nevada	8.4	10	6.27	41	67	42	194.6	42	419	24	97.5	46
New Hampshire	8.3	9	3.60	8	32	2	167.3	18	432	29	22.0	13
New Jersey	9.9	27	5.27	30	38	8	188.0	36	488	46	54.1	37
New Mexico	10.0	29	6.57	44	72	48	146.5	3	305	5	65.9	41
New York	10.8	37	6.29	43	41	11	198.3	47	448	34	68	42
North Carolina	12.5	49	5.25	29	61	35	185.4	30	399	15	46	33
North Dakota	10.5	33	2.56	2	33	3	128.1	1	415	22	10.1	1
Ohio	9.7	25	4.73	22	52	29	196.4	45	454	38	17.0	8
Oklahoma	9.0	19	5.50	32	64	40	187.5	35	434	30	38.8	28
Oregon	8.6	12	6.16	39	48	22	162.3	13	448	34	123.1	48
Pennsylvania	9.9	27	3.36	5	42	15	191.8	39	510	48	41.2	31
Rhode Island	8.2	8	5.22	28	41	11	179.1	26	524	49	30.8	20
South Carolina	12.3	47	5.62	34	71	46	194.8	43	378	11	49.0	34
South Dakota	10.1	30	2.69	3	45	16	165.9	16	450	37	11.5	2
Tennessee	10.8	37	4.51	19	64	40	188.6	38	429	28	40.4	30
Texas	9.0	19	7.93	48	70	44	172.8	23	323	7	54.1	37
Utah	8.0	6	5.68	36	48	22	157.5	9	208	2	52.0	36
Vermont	6.8	1	4.09	13	33	3	182.9	28	413	20	29.9	19
Virginia	10.4	32	4.21	16	46	18	180.6	27	407	17	31.7	21
Washington	9.0	19	6.59	45	47	20	158.0	10	389	12	120.3	47
West Virginia	9.0	19	2.36	1	49	24	217.7	50	507	47	14.7	6
Wisconsin	8.4	10	4.16	15	39	10	169.6	22	420	26	20.1	10
Wyoming	8.9	17	3.89	9	50	27	159.0	11	283	3	19.8	9

Economic Performance Data Sources

SUBINDEX ONE: EMPLOYMENT

■ ***Long-Term Employment Growth***
Change in employment of workers on non-agricultural payrolls, by place of residence, from the year October 1984-September 1985 to the year October 1989-September 1990. Percent.
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Local Area Unemployment Statistics," unpublished data disk, Washington DC, November 1990.

■ ***Short-Term Employment Growth***
Change in employment of workers on non-agricultural payrolls, by place of residence, from the year October 1988-September 1989 to the year October 1989-September 1990. Percent.
Source: Same as Long-Term Employment Growth.

■ ***Unemployment Rate***
Unemployed labor force, average for year October 1989-September 1990. Percent.
Source: Same as Long-Term Employment Growth.

■ ***Unemployment Duration***
Unemployed members of the labor force who were unemployed more than 27 weeks, 1989. Percent.
Source: U.S. Department of Labor, *Geographic Profile of Employment and Unemployment* (Washington DC: Government Printing Office, May 1990).

SUBINDEX TWO: EARNINGS AND JOB QUALITY

■ ***Average Annual Pay***
Average annual pay for all workers covered by unemployment insurance, by location of establishment, 1989. Dollars.
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Average Annual Pay by State and Industry, 1989," USDL 90-431 News Release, Washington DC, August 22, 1990.

■ ***Average Annual Pay Growth***
Change in average annual pay for all workers covered by unemployment insurance, by location of establishment, 1988-1989. Percent.
Source: Same as Average Annual Pay.

■ ***Health Coverage***
Non-elderly population covered by private health plan, 1988. Percent.
Source: Employee Benefit Research Institute, *Uninsured in the United States* (Washington DC: Employee Benefit Research Institute, September 1990).

SUBINDEX THREE: EQUITY

■ ***Poverty Rate***
Population living in household units with incomes below the poverty line, 1986-88. Percent.
Source: Sheldon Danziger and Jon Haveman, unpublished tables, University of Michigan-Ann Arbor, 1990. Calculations based on merged U.S. Current Population Survey data tapes from March 1987, 1988 and 1989.

■ ***Income Distribution***
Ratio of median income of families in the top quintile (family income) to median income of families in the bottom quintile, 1986-1988.
Source: Same as Poverty Rate.

Economic Performance Data Sources

■ ***Income Distribution Change***

Change in ratio of families in the top quintile (family income) to median income of families in the bottom quintile, from 1984-86 ratio to 1986-88 ratio. Percent.

Source: Same as Poverty Rate. Calculations based on merged U.S. Current Population Survey data tapes from March 1985, 1986, 1987, 1988 and 1989.

■ ***Rural/Urban Disparity***

Composite index of five economic performance measures that compare absolute value differences between non-metropolitan and metropolitan counties within a state. Measures include long-term employment growth (1984-89), short-term employment growth (1988-89), unemployment rate (1989), average earnings (1988), and earnings growth (1984-88). Score.

Source: Corporation for Enterprise Development, "Rural/Urban Disparity Index," research report for Economic Climate Project, Washington DC, December 1990.

Note: See *Appendix A: Rural/Urban Disparity Index* for more details, and for explanation of New Jersey's score.

SUBINDEX FOUR: ENVIRONMENTAL, SOCIAL AND HEALTH CONDITIONS

ENVIRONMENTAL QUALITY

■ ***Air Quality***

Degree to which state residents live in areas that exceeded national ambient air quality standards for ozone and/or carbon monoxide, 1987-89. Score.

Source: Environmental Protection Agency, Office of Air Quality Planning and Standards, "Ozone and Carbon Monoxide Air Quality Design Values: 1987-89 Air Quality Update," news release attachment, Washington DC, August 16, 1990. Calculations by CFED.

■ ***Superfund Dumpsites***

Superfund dumpsites per million population, 1990. Number.

Source: Environmental Protection Agency, Office of Emergency and Remedial Response, "National Priorities List, Supplementary Lists and Supporting Materials," HW-10.14S, Washington DC, August 1990.

■ ***Hazardous Waste Generation***

Hazardous waste generated per capita, 1986. Metric tons.

Source: National Council on Public Works Improvement, "Hazardous Waste Management," report prepared by Apogee Research, Washington DC, May 1987.

■ ***Surface Water Discharge***

Major municipal and non-municipal dischargers in significant non-compliance with the established water quality standards specified on permit, March 1990. Percent.

Source: Environmental Protection Agency, Office of Water Enforcement and Permits, unpublished tables, Washington DC, 1990.

SOCIAL CONDITIONS

■ ***Infant Mortality***

Infant (under one year) deaths per 100,000 live births, 1988. Number.

Source: National Center for Health Statistics, *Monthly Vital Statistics Report*, Hyattsville MD, September 1990.

■ ***Crime Rate***

FBI index of serious crime rate per 100 population, 1989.

Source: Department of Justice, *Crime in the United States, 1989* (Washington DC: Government Printing Office, 1990).

■ ***Teen Pregnancy***

Birth rate to teens aged 15-19 per 1,000 females aged 15-19, 1988.

Source: Child Trends, Inc., "Facts At A Glance," staff report, Washington DC, November 1990.

HEALTH

■ ***Heart Disease***

Death rate from coronary heart disease, three-year running average, age- and race-adjusted, per 100,000 population, 1985-87.

Source: National Center for Health Statistics, unpublished data, Hyattsville MD, as cited in Northwestern National Life Insurance Company, *The NWNL State Health Rankings: Results, Methodology, and Discussion, 1990 Edition* (Minneapolis: Northwestern National Life Insurance Company, 1990).

■ ***Cancer Cases***

Projected cancer cases, all types (except some skin cancers), per 100,000 population, 1990.

Source: American Cancer Society, *Cancer Facts and Figures - 1990* (Atlanta: American Cancer Society, 1990), as cited in Northwestern National Life Insurance Company, *The NWNL State Health Rankings: Results, Methodology, and Discussion, 1990 Edition* (Minneapolis: Northwestern National Life Insurance Company, 1990).

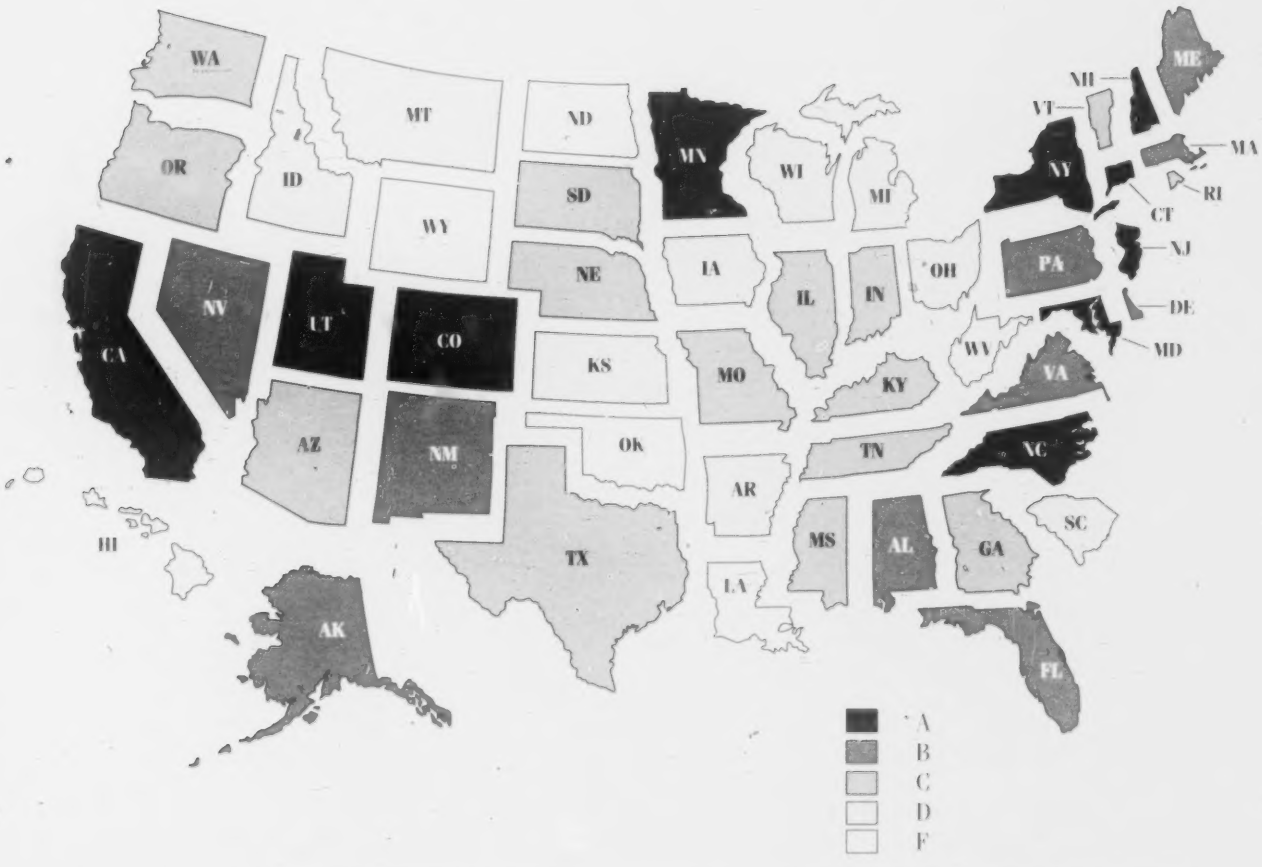
■ ***Infectious Disease***

Occurrence of Acquired Immune Deficiency Syndrome (AIDS), tuberculosis and hepatitis, rate per 100,000 population, 1989.

Source: *Morbidity and Mortality Weekly Report*, January 5, 1990, Centers for Disease Control, Atlanta GA, as cited in Northwestern National Life Insurance Company, *The NWNL State Health Rankings: Results, Methodology, and Discussion, 1990 Edition* (Minneapolis: Northwestern National Life Insurance Company, 1990).

Unless otherwise noted, the data for population calculations comes from the U.S. Bureau of the Census, press release, CB89-204, December 29, 1989, as reported in Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

The Business Vitality Index



Business Vitality Report Card

	Business Competitiveness Subindex		Entrepreneurial Energy Subindex		Structural Diversity Subindex		INDEX GRADE	
	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade
Alabama	18	B	25	C	19	B	13	B
Alaska	10	A	21	C	39	D	20	B
Arizona	46	F	5	A	23	C	26	C
Arkansas	25	C	42	D	26	C	42	D
California	18	B	4	A	16	B	3	A
Colorado	35	C	16	B	2	A	8	A
Connecticut	1	A	26	C	25	C	7	A
Delaware	2	A	18	B	48	F	19	B
Florida	48	F	3	A	12	B	15	B
Georgia	36	D	9	A	29	C	26	C
Hawaii	39	D	12	B	46	F	44	D
Idaho	15	B	29	C	43	D	36	D
Illinois	17	B	46	F	11	B	26	C
Indiana	22	C	36	D	17	B	30	C
Iowa	13	B	41	D	37	D	41	D
Kansas	10	B	30	C	17	B	36	D
Kentucky	34	C	37	D	8	A	32	C
Louisiana	50	F	47	F	42	D	50	F
Maine	24	C	10	A	31	C	17	B
Maryland	29	C	6	A	21	C	9	A
Massachusetts	5	A	45	D	10	A	12	B
Michigan	14	B	47	F	32	C	42	D
Minnesota	4	A	19	B	22	C	4	A
Mississippi	44	D	31	C	4	A	32	C
Missouri	38	D	40	D	7	A	35	C
Montana	33	C	23	C	33	C	39	D
Nebraska	8	A	34	C	37	D	32	C
Nevada	11	B	1	A	50	F	13	B
New Hampshire	6	A	2	A	26	C	1	A
New Jersey	2	A	26	C	19	B	5	A
New Mexico	47	F	17	B	1	A	17	B
New York	7	A	38	D	5	A	6	A
North Carolina	8	A	15	B	12	B	2	A
North Dakota	42	D	50	F	45	D	49	F
Ohio	26	C	49	F	24	C	45	D
Oklahoma	49	F	38	D	39	D	47	F
Oregon	31	C	11	B	29	C	21	C
Pennsylvania	27	C	31	C	5	A	15	B
Rhode Island	16	B	22	C	34	C	23	C
South Carolina	23	C	24	C	41	D	38	D
South Dakota	20	B	26	C	28	C	26	C
Tennessee	29	C	34	C	14	B	31	C
Texas	45	D	20	B	8	A	24	C
Utah	41	D	14	B	3	A	10	A
Vermont	20	B	7	A	44	D	21	C
Virginia	37	D	8	A	11	B	11	B
Washington	27	C	12	B	34	C	24	C
West Virginia	32	C	33	C	46	F	46	F
Wisconsin	12	B	42	D	36	D	40	D
Wyoming	43	D	42	D	49	F	48	F

The Business Vitality Index

THE PRODUCT LINE

In any company, some products move faster than others. Some are more profitable than others. Some are less profitable but generate a steady stream of orders and, consequently, a steady flow of income. And others are still on the drawing board and not yet in production. What most firms strive for is a good balance in the product line overall, and sufficient success with new products to cover the cost of phasing out or updating obsolete or unprofitable ones.

It's the same with state economies. They're composed of existing firms of all sizes and levels of competitiveness and, if the business climate is right, a steady stream of new firms struggling to be born, gain market share and grow. The "bottom line" in any state economy is its net sales — the jobs and income it produces for its citizens, less what it invests to produce them. What generates those "sales" are the items in the state's "product line" — the businesses that comprise its economy. The more diversified a state's product line — that is, the better the mix of successful existing firms and promising new ones — the stronger the economy will be in the face of competition and the more resilient it will be in the face of unforeseen changes.

The Business Vitality Index does for state economies what management consultants often do for companies: it evaluates the product line, using eight measures gathered into three subindexes:

- *Competitiveness of Existing Businesses*: whether existing products (firms) — especially those in "traded sectors" that bring income into the state — are strong and growing, need to be modernized, or are likely to be phased out.
- *Entrepreneurial Energy*: whether new items (firms) are being created for the product line (economy), are growing, and are being generated by all segments of the population.
- *Structural Diversity*: whether the items in the product line are sufficiently varied so that the company can grow even if the market for one of its products changes.

The Performance Index, like a profit and loss statement, can only tell you how your company (or economy) has done in the past. The Business Vitality Index, like a management consultant's report, has the advantage of being able to suggest not just how things are, but how they may be in the future given the current structure of the product line. An economy with weak existing firms and little entrepreneurial energy, for example, is likely to stagnate. One with high levels of new business formation but little growth may be weak in some of the fundamentals for growth — like capital and skilled workers. And an economy that lacks diversity is vulnerable to expected or unexpected change. Taken together, they constitute a useful inventory of each state's business vitality.

A caution about this inventory is in order, however. Taking the measure of the vitality of businesses is no picnic. While data on the birth and death of firms is readily available, data on the competitiveness of existing firms and

on the diversity of state economies is much more difficult to develop. More important this year, the most recent data available to make these determinations tends to be from 1989; thus, the impact of the recession does not appear as dramatically as it might were the data a bit more current.

BUSINESS VITALITY INDEX FINDINGS

Just as product sales drive company earnings, business vitality drives state economic performance. Not surprisingly, then, 12 of the states leading the Business Vitality Index this year also top the Performance Index. Usually, when businesses do well, people do too.

By the same token, just as few companies change their product lines dramatically from one year to the next, few states experience dramatic changes in the vitality of the businesses that make up their economies. Thus, 14 of the 20 states earning *A* or *B* grades in the Business Vitality Index this year earned similar grades last year. At the opposite end of the list, the same is true, only more so: 13 of the 15 states earning only *D* or *F* grades in this Index received similar grades last year.

The states at the very top of the Index have something in common: economies composed of complex, technologically-advanced industries. Examples include California, Connecticut, Maryland, Minnesota, New Jersey and New York, among others. All but a few of the states at the opposite end of the Index have the opposite characteristics: they tend to be narrowly-based in low value-added, low-wage commodity and extraction industries — sectors that were weak long before the recession. Examples include Louisiana, Montana, North Dakota, West Virginia and Wyoming, among others.

The exceptions in the *A* and *B* grades are the fast-growing "leisure economies" of Florida and Nevada, and a few states (Alaska, New Mexico, Utah) whose very low grades in one subindex are offset by average or above average grades in another. In addition, Alabama turns in a surprisingly strong showing across all three Business Vitality subindexes.

The exceptions in the *D* and *F* grades are the older industrial economies of Michigan, Ohio and Wisconsin, all hammered by the recession, especially in auto-related industries. Finally, despite its strength in the Performance Index, Hawaii ranks near the bottom in Business Vitality, reflecting poor diversity and weakness in its traded sector industries.

The states earning *C* grades in Business Vitality are a mixed group. Some, like Oregon and Washington, are fairly narrowly-based economies and, therefore, rate only average in diversity. Others, like Illinois, Indiana and Tennessee, evidence little entrepreneurial energy. And many others simply score weakly in several individual Vitality measures.

COMPETITIVENESS OF EXISTING BUSINESSES SUBINDEX FINDINGS

The leaders in the Competitiveness Subindex are the leading-edge industrial states — Connecticut, Delaware, Massachusetts, Minnesota and New York, among others. Not surprisingly, perhaps, the standings haven't changed much; nine of the 10 states with an *A* this year also earned an *A* last year. The exception is Alaska, where high-paying oil sector jobs push up traded sector strength.

The *B* group includes several midwestern farm states that posted strong traded sector income when grain prices skyrocketed in 1989 after the 1988 drought, and steady improvements in traded sector income since the farm crisis of the early 1980s. Relatively low business failure rates also helped these states, which include Nebraska with a low *A*, Iowa and South Dakota.

The states that trail in this Subindex tend to have insular economies with weak traded sectors, like Hawaii or New Mexico, or economies in which the value added to traded products is limited — Arizona, Florida and Louisiana. Many states earning *D* or *F* in Competitiveness not only have weak traded sectors but are getting weaker; that is, they ranked lower this year in the "change in traded sector strength" measure than they did last year. Conversely, the state worth watching in this group is the one whose traded sector, while weak, is changing for the better — Utah.

The business failure rates measured in this Subindex are

fairly predictable: they are greater in those states that had the most troubled economies in 1989 (Alaska, Colorado, Louisiana, Oklahoma and Texas) and in some of the fastest growing states where new businesses are being formed — and failing — at rapid rates (Arizona, Florida and Georgia). California, consistently one of the most entrepreneurial states (see Entrepreneurial Energy Subindex), maintains its tendency toward very high business failure rates for the fourth year in a row, although this year its Competitiveness grade rises to a *B*.

ENTREPRENEURIAL ENERGY SUBINDEX FINDINGS

In a globally competitive economy where, in order to maintain market share, companies must constantly produce new products or incrementally-improved products, state economies too must generate new and growing businesses to keep from stagnating. Fast-growing states are prodigious new-business hatcheries: in-migration creates both labor and demand, new businesses are formed, and even more people migrate in to work in the new businesses.

There is, in fact, an almost perfect match between the states with *A* and *B* grades in this Subindex and the results of the new 1990 Census: nine of the 10 states earning an *A*, and eight of the 10 earning a *B* were the fastest growing states in the nation, growing by more than 10 percent during the last decade. The three exceptions just missed the 10 percent cut: Maine grew by 9.7, Oregon by 8.4, and Minnesota by 7.6 percent. In contrast, the five states with an *F* in this Subindex either lost population or grew less than one percent during the 1980s.

While the birth of new businesses is generally a good sign, it's not always a sure indicator of a dynamic economy. When new businesses are *forming* at a rapid rate, but not *growing*, chances are that what is happening is a kind of "entrepreneurship of necessity" — that is, people forming businesses in order to create work for themselves, and perhaps a few others, in a weak or unsupportive economy. Kentucky, New Mexico, West Virginia and — to a lesser extent — Arizona and Colorado are examples of this phenomenon.

The flip side of this situation is that not all fast-growing firms are new firms. In several states, technologically-advanced, established industries posted good to excellent growth rates between 1987 and 1990, including Connecticut, Massachusetts, Minnesota, Pennsylvania and Rhode Island. Given the recession, however, it is unlikely these states will show similar growth rates next year. Indeed, Massachusetts, although still 23rd in fast-growing businesses, dropped from 5th place in last year's *Report Card*.

Finally, just as it's important to know whether one product is generating the bulk of a company's sales while others languish, it is important to know whether the opportunity to found and build a business is spread through each state's population. This year's updated minority and women business ownership figures turn out to be as much an indicator of population density and homogeneity as they are of nontraditional entrepreneurship. The states with the lowest scores in this measure tend to be either urban (Illinois, Michigan, New York, Ohio, Pennsylvania) or poor (Alabama, Kentucky, Louisiana, Mississippi, North and South Carolina, Tennessee, West Virginia). The leading states, on the other hand, tend to be remote, thinly-populated, and — with the exception of Hispanics in Florida and New Mexico — to have relatively few minorities: Alaska, Idaho, Maine, Montana, New Hampshire, Nevada, South Dakota, Vermont and Wyoming. (Please note: Native Americans are not included in these Census figures.) Since this measure is controlled for the relevant population, it suggests that these states lead not because they have relatively few minorities or women, but because those who do live there may have relatively few job alternatives other than starting their own businesses. In short, minorities and women may create businesses in these states because it is the only way they can earn a living.

STRUCTURAL DIVERSITY SUBINDEX FINDINGS

The corporate landscape is littered with obsolete products, from whale oil lamps to typewriters. The companies both farsighted and diversified enough to weather the transition between old and new still thrive today — IBM's conversion from typewriters to computers is a good example. Those that could not have vanished. State economies face

roughly the same challenge, if not precisely the same fate, if they are too narrowly-based in a few industries or sectors. The more diversified a state's economic base, the better it can weather sudden economic shifts in any one industry or sector.

The Structural Diversity Subindex is composed of two indicators. One — sectoral diversity — measures whether a state's economic base income is distributed across a variety of economic sectors. The second — dynamic diversity — measures whether downturns in some sectors are offset by upturns in others. In short, we measure diversity both by how a state economy is structured and by how it acts.

The bottom of this Subindex holds few surprises. The *D* and *F* grades are dominated by energy and mineral dependent economies like Alaska, Louisiana, Oklahoma, West Virginia and Wyoming, along with the "leisure economies" of Hawaii and Nevada. Despite the growth of its financial services sector, Delaware — unaccustomed to being at the bottom of any *Report Card* Index — earns an *F* again this year because of the continuing dominance of its petrochemical industry. Not far up from the bottom and just barely avoiding a *D* is Washington, one-half of which is dependent upon a single industry, timber, and the other half of which is dependent upon a single company, Boeing. Swings in the fortunes of either have a profound effect on the "bottom line" — that is, the state's position in the Economic Performance Index.

Near the top in this Subindex are the complex industrial economies of California, Illinois, Massachusetts, New Jersey, New York and Pennsylvania, among others — states that can be counted on to weather all but the most wide-ranging economic storms. At the same time, however, these states share the lead with some surprising companions: Colorado, Kentucky, Mississippi, New Mexico and Tennessee.

What these results suggest is that diversity alone does not create robust economies. What *does* is the combination of vital businesses and the right "fundamentals" — the human, capital, technology, and other building blocks addressed in the next index, Development Capacity.

BUSINESS VITALITY MEASURES

SUBINDEX ONE: COMPETITIVENESS OF EXISTING BUSINESSES

The economic climate of any state is determined, in part, by the competitiveness of the businesses that already exist in the state — that is, their ability, compared to their competitors, to marshal resources and develop new technologies to create and produce new goods and services for expanding world markets. To determine how businesses in each state are doing, we use three measures: traded sector strength, change in traded sector strength and business failure rate.

■ ***Traded Sector Strength:*** The engine of every state economy is its "traded sector" — the firms that produce goods and services that are exported out of the state and, thus, bring income into the state. Traded sector businesses also strengthen state economies even when they sell within the state, if their products or services displace imports from other states or nations. The strength of the traded sector can be measured by the sum total of its "value-added" — the difference between the cost of the materials that go into a product and what it can sell for. Value-added measures the inflow and retention of wealth in a state economy.

Getting a handle on value-added, and thus on the strength of the traded sector, is no mean feat. Here, we take the principal indicator of value-added in each state's traded sector — that is, *income* (wages, salaries, unincorporated profits, and so forth) — and divide it by the number of people employed statewide to adjust for differences in state size.

See *Appendix B* for a fuller explanation of this measure.

■ ***Change in Traded Sector Strength:*** Traded sector strength does not suggest, however, whether the state's traded sector industries are faring better or worse than in recent years. To get at the changing condition of a state's traded sector industries, we examine the change in traded sector income per worker from 1984 to 1989. This measure combines two effects: first, the mix of

industries in a state and whether they are fast- or slow-growing, and second, how a state's traded sector industries perform compared to those industries nationally. So, for example, a state that ranks about average may have high-growth industries that are not faring well, slow-growth industries performing better than the rest of the nation, or moderately-growing industries performing at the national average. Understanding the reasons behind your score on this measure requires detailed analysis.

See *Appendix B* for a fuller explanation of this measure.

■ ***Business Failure:*** Perhaps the most basic indicator of the competitiveness of the businesses in a state is simply whether they survive. Theoretically, one might expect more business failures in states with high degrees of entrepreneurship, but sometimes this is not the case. States with a high degree of entrepreneurial energy often have relatively low business failure rates, suggesting that high failure rates may indicate a troubled economy. This measure does not include *all* business failures, just those that went into bankruptcy or receivership, or otherwise involved in voluntary actions that resulted in actual losses to creditors.

SUBINDEX TWO: ENTREPRENEURIAL ENERGY

The rapid generation of new jobs (and the disappearance of old ones) is a central characteristic of the American economy. In fact, more than half the new jobs in any state in the next five years will be created by businesses that do not even exist today — businesses that often will be started by people who are not now in business and who already live in the state. New firms also perform a vital function in changing state economies: they replenish the jobs lost when larger companies pare their workforces to become more competitive, or when firms that fail to take such action close altogether. Finally, in state after state, some new businesses spawn entire industries — and such industries tend to grow in close proximity to the "parent" firm.

Most indigenous firms are small, and small firms are key to economic competitiveness. While innovation can occur in larger firms, smaller firms are generally more efficient at product and process innovations, less footloose, and able to react more quickly to changing economic circumstances.

New and small businesses are not without their own shortcomings, however. They tend to pay lower wages initially, and offer fewer benefits. On the other hand, they often provide entry opportunities for workers who have no previous experience and limited skills, they invest in training these workers and, thus, increase their future employability and mobility. And while these firms fail more frequently, recent research has shown the failure rate to be much lower than previously assumed. During the last recession, for example, you were more likely to lose your job through contraction or failure if you were employed in a firm with more than 100 employees, than in one with fewer than 100. Moreover, less than one percent of all businesses fail each year with a loss to creditors — 80 percent of which have survived their first two years.

To capture the entrepreneurial energy in a state, we look at three factors: the birth rates of new businesses, the growth rates of new businesses, and the level of entrepreneurship among minorities and women.

■ ***New Companies:*** Our measure for identifying new companies is the number of business formations per 10,000 workers in the state. Specifically, we count the number of companies created after 1985 that were employing at least 10 people by December 1990. We are interested here in whether new firms reach a significant size, not simply in how many of them exist at any one time.

We note that a weakness of any business formation rate is that it includes existing firms that have simply changed owners. Also, we still rely on modified Dun and Bradstreet data, because comparable Unemployment Insurance file data on firm dynamics are unavailable. However, this problem is common to all states and introduces no bias that we can identify for or against any state.

■ ***Fast-Growing New Companies:*** We can get a pretty good picture of the level of vitality in a state by looking at the companies that are both young and rapidly-growing. The growth patterns of young "high fliers" tells us something about their ability to meet emerging market needs and ini-

tiate, adapt to and take advantage of change. In this measure, "fast growing" refers both to the number of jobs created *and* to the percentage of that growth. Thus we do not include large companies that may have added a lot of jobs but which have had, in fact, only a slight overall percentage growth. By the same token, we do not include very small firms with a very high percentage growth that represents only a few jobs.

■ ***Minority and Women Business Ownership:*** Economies in which entrepreneurship is not widely distributed among all segments of the population — to include non-traditional entrepreneurs such as women and minorities — are missing out on sources of new economic growth. Equity in state economic performance can never be fully achieved unless all segments of the population have the opportunity to enter the "pool of entrepreneurs." Moreover, by encouraging minority and women entrepreneurs, states reap other important benefits: such businesses are more likely to put down roots in distressed communities, more likely to hire minority and women employees, and more likely to provide role models for future entrepreneurs in their communities, than are other firms.

As with new companies, we take care in this measure to distinguish between entrepreneurial energy and entrepreneurial necessity. Firm ownership among women and minorities has risen sharply in recent years, but many of these firms have been created by individuals who, because of barriers to their participation in the mainstream economy or because they simply have insufficient resources, are self-employed as domestics, handymen, baby-sitters and the like.

Here we focus only on women and minority (black and Hispanic) -owned businesses (sole proprietorships, partnerships and Subchapter S corporations) with paid employees. In addition, we measure these firms in relation to population. Again we must emphasize that high self-employment rates — whatever the source — are resources to be developed.

Please see *Appendix C* for more information on this measure.

SUBINDEX THREE: STRUCTURAL DIVERSITY

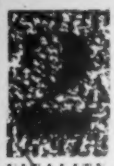
Diversity among traded-sector industries is essential to long-term business vitality because it decreases vulnerability to sharp changes in the fortunes of any one industry. Recent studies of U.S. rural economies, for instance, suggest that diversity is a key factor in the growth or decline of an area's economy. We measure two features of diversity: how diverse an economy looks, with employment distributed across many industries, and how diverse an economy acts, so that when one industry is declining others are stable or growing.

Please see *Appendix B* for a fuller explanation of these two Structural Diversity measures.

■ ***Sectoral Diversity:*** One indication of diversity is the degree to which a state's traded sector is spread across a range of industries rather than concentrated in just a few. To measure the degree of concentration in a state's traded sector, we use a measure known as the Herfindahl Index, which places states on a scale of 0 to 1, with states closer to 0 being more diverse and states closer to 1 being less diverse.

■ ***Dynamic Diversity:*** This measure examines the extent to which employment changes in one traded industry paralleled — or did not parallel — changes in other industries for each year between 1984 and 1989. Note that the concept of dynamic diversity is easier to describe than it is to measure. For example, a booming economy — one in which all sectors are growing simultaneously — can appear to be poorly diversified, even if it is not, because all sectors are moving in the same direction at once. In addition, occasionally an economy will turn out, upon closer inspection, to be less diversified than the measure suggests, because while it has industry sectors that move in opposite directions, it has only a few of them.

This year we have not penalized states in which the overwhelming majority of traded industries are growing, as long as their major industries are not in the same general sector — like tourism and entertainment. The growing states whose scores were adjusted — Alaska, Arizona, California, Florida, Oregon and Washington — all score a "0," indicating that we cannot determine the ability of their traded industries to respond to different external factors. (Ohio scored a true "0.")



VITALITY

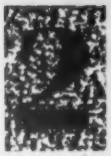
Business Vitality Data

COMPETITIVENESS OF EXISTING BUSINESSES

	Traded Sector Strength† per worker		Change in Traded† Sector Strength		Business Failure per 10,000 cos.	
	$	Rank	$	Rank	Rate	Rank
Alabama	8,238	21	1,225	21	53	25
Alaska	10,756	5	3,030	1	84	41
Arizona	6,313	45	894	34	95	45
Arkansas	7,775	32	1,127	27	44	18
California	9,239	13	1,238	19	78	35
Colorado	7,838	30	1,303	13	106	47
Connecticut	12,674	1	2,076	3	11	1
Delaware	11,590	3	1,773	7	17	2
Florida	5,315	50	605	40	89	43
Georgia	8,389	19	1,203	24	109	48
Hawaii	6,238	46	1,224	22	66	29
Idaho	7,973	25	1,749	8	59	26
Illinois	9,874	8	1,299	14	93	44
Indiana	9,998	7	869	35	67	30
Iowa	8,132	22	1,223	23	37	12
Kansas	7,841	29	558	43	70	32
Kentucky	8,078	23	961	32	72	34
Louisiana	6,985	41	238	47	132	50
Maine	7,187	37	1,106	29	34	9
Maryland	7,136	39	793	38	20	4
Massachusetts	10,087	6	1,981	4	44	18
Michigan	11,464	4	1,326	12	85	42
Minnesota	9,203	14	1,811	6	21	5
Mississippi	7,170	38	801	37	80	39
Missouri	7,887	28	920	33	78	35
Montana	5,365	49	1,270	17	49	21
Nebraska	7,926	26	1,344	11	34	9
Nevada	9,194	15	1,972	5	67	30
New Hampshire	9,381	11	1,251	18	34	9
New Jersey	12,118	2	2,401	2	26	8
New Mexico	5,616	47	517	44	79	37
New York	9,793	9	1,237	20	37	12
North Carolina	8,663	18	1,353	10	44	18
North Dakota	5,478	48	86	48	39	15
Ohio	9,540	10	592	41	62	28
Oklahoma	7,083	40	338	46	114	49
Oregon	7,396	36	1,065	30	40	16
Pennsylvania	8,697	16	566	42	50	22
Rhode Island	7,916	27	982	31	19	3
South Carolina	7,781	31	810	36	22	6
South Dakota	6,470	44	1,531	9	43	17
Tennessee	8,284	20	1,286	16	95	45
Texas	7,668	33	513	45	79	37
Utah	6,902	43	726	39	60	27
Vermont	7,484	35	1,108	28	23	7
Virginia	7,547	34	1,140	26	70	32
Washington	8,671	17	1,203	24	80	39
West Virginia	8,011	24	-270	50	37	12
Wisconsin	9,366	12	1,293	15	51	24
Wyoming	6,980	42	-229	49	50	22

Please refer to *Business Vitality Data Sources* and *Business Vitality Index* text for further detail on individual measures.

† See *Appendix B* for more information on these measures.



ENTREPRENEURIAL ENERGY

STRUCTURAL DIVERSITY†

New Companies per 10,000 wkrs.		Fast Growing New Companies		Min. & Women* Bus. Ownership		Sectoral Diversity		Dynamic Diversity		
#	Rank	%	Rank	Score	Rank	Score	Rank	Score	Rank	
12.41	23	1.84	11	122	44	.0378	2	1.10	36	Alabama
11.46	29	1.10	44	9	1	.1053	46	0.00	23	Alaska
19.87	1	1.63	24	42	10	.0550	22	0.00	23	Arizona
10.65	33	0.85	47	84	26	.0500	16	0.73	33	Arkansas
16.35	5	2.28	4	52	16	.0467	13	0.00	23	California
14.79	12	1.39	37	42	10	.0409	6	-2.62	2	Colorado
9.39	43	2.02	7	87	30	.0759	38	-0.95	10	Connecticut
12.94	19	1.81	13	85	29	.1987	49	3.24	42	Delaware
19.84	2	1.76	16	23	5	.0421	9	0.00	23	Florida
15.94	7	1.81	13	80	24	.0484	14	2.48	39	Georgia
17.23	4	1.92	8	116	40	.0855	41	13.45	49	Hawaii
11.77	27	0.84	48	42	10	.0798	39	2.68	40	Idaho
10.16	37	1.69	22	138	49	.0460	12	-0.39	19	Illinois
9.60	42	1.52	31	84	26	.0546	21	-0.53	16	Indiana
8.66	48	1.34	38	56	19	.0647	33	0.94	35	Iowa
11.37	30	1.26	40	58	20	.0566	25	-0.70	12	Kansas
13.07	16	1.31	39	123	45	.0430	11	-0.60	15	Kentucky
9.94	39	1.12	43	98	34	.0596	29	6.43	47	Louisiana
12.13	25	1.76	16	25	7	.0652	34	-0.29	20	Maine
17.52	3	2.78	1	95	32	.0534	19	-0.10	21	Maryland
9.17	44	1.86	23	116	40	.0576	27	-2.11	3	Massachusetts
9.93	40	1.57	28	128	48	.1385	48	-0.68	13	Michigan
10.39	36	1.90	9	58	20	.0534	19	-0.05	22	Minnesota
11.76	28	1.52	31	107	36	.0418	7	-1.38	8	Mississippi
10.48	35	1.41	36	97	33	.0420	8	-0.53	16	Missouri
11.78	26	0.94	46	22	4	.0643	32	0.10	30	Montana
7.56	49	1.45	35	46	14	.0730	37	0.11	31	Nebraska
16.14	6	2.67	2	42	10	.2725	50	38.42	50	Nevada
15.93	8	1.88	10	12	3	.0833	40	-0.97	9	New Hampshire
12.29	24	1.75	18	110	38	.0636	31	-1.50	7	New Jersey
15.26	10	1.13	42	26	8	.0401	4	-10.94	1	New Mexico
11.25	31	1.71	21	140	50	.0511	17	-1.51	6	New York
13.07	16	2.18	5	108	37	.0525	18	-0.65	14	North Carolina
7.16	50	0.71	49	76	23	.0884	43	5.15	45	North Dakota
8.88	46	1.61	27	127	46	.0559	24	0.00	23	Ohio
10.78	32	1.06	45	81	25	.0555	23	5.38	46	Oklahoma
12.59	22	1.84	11	54	18	.0630	30	0.00	23	Oregon
10.53	34	1.78	15	127	46	.0404	5	-0.42	18	Pennsylvania
10.02	38	2.13	6	94	31	.0580	28	1.19	37	Rhode Island
15.56	9	1.57	28	116	40	.0681	35	2.14	38	South Carolina
9.91	41	1.49	33	24	6	.0997	45	-1.92	5	South Dakota
12.64	21	1.47	34	118	43	.0388	3	0.70	32	Tennessee
12.87	20	1.56	30	52	16	.0491	15	-0.94	11	Texas
13.76	14	1.73	19	72	22	.0427	10	-1.93	4	Utah
13.23	15	1.72	20	11	2	.0687	36	4.71	44	Vermont
15.15	11	2.38	3	84	26	.0362	1	0.81	34	Virginia
14.44	13	1.63	24	48	15	.0864	42	0.00	23	Washington
12.95	18	1.26	40	115	39	.1087	47	3.70	43	West Virginia
9.08	45	1.62	26	104	35	.0569	26	2.78	41	Wisconsin
8.85	47	0.48	50	39	9	.0927	44	10.36	48	Wyoming

† See *Appendix B* for more information on these measures.

* See *Appendix C* for more information on this measure.

Business Vitality Data Sources

SUBINDEX ONE: COMPETITIVENESS OF EXISTING BUSINESSES

■ ***Traded Sector Strength***
Traded sector personal income per worker, 1989. Dollars.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, "State Personal Income Summary Tables 1989," unpublished data disk, Washington DC, August 1990; U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages: Annual Averages, 1989," Bulletin 2373, Washington DC, October 1990. Calculations by Mt. Auburn Associates.
Note: See *Appendix B: Traded Sector Strength and Structural Diversity* for more information on this measure.

■ ***Change in Traded Sector Strength***
Change in traded sector strength per worker, 1984-89. Dollars.
Source: Same as Traded Sector Strength.

■ ***Business Failure***
Business failures per 10,000 companies, 1989. Rate.
Source: Dun and Bradstreet, preliminary unpublished data for *Business Failure Record*, New York, December 1990.
Note: "Failures" are businesses involved in bankruptcy or receivership proceedings, or voluntary actions involving losses to creditors.

SUBINDEX TWO: ENTREPRENEURIAL ENERGY

■ ***New Companies***
Companies founded after January 1985 with at least ten employees by December 1990, per 10,000 (1985) workers. Number.
Source: Cognetics Consultants, Inc., unpublished study for CFED's Economic Climate Project, Cambridge MA, 1990.

■ ***Fast Growing New Companies***
Percent of all companies in the state founded after December 1985 with nine or fewer employees as of December 1987 and a growth index of 25 or more for the period 1987-1990.
Source: Same as New Companies.
Note: The growth index is determined by multiplying the percent of job growth (in decimal terms) by the actual increase in the number of jobs. For example, a company which grew from 40 to 70 jobs would have an index of 22.5 – that is, (.75 x 30).

■ ***Minority and Women Business Ownership***
Composite index of women-owned and minority-owned (black and Hispanic) businesses with paid employees, relative to minority and women populations, 1987. Score.
Source: U.S. Department of Commerce, Bureau of the Census, *1987 Economic Censuses: Women-Owned Businesses* and *Survey of Minority-Owned Business Enterprises - Black* (Washington DC: Government Printing Office, 1990); *1982 Survey of Minority-Owned Business Enterprises* (Washington DC: Government Printing Office, 1986). Calculations by CFED.
Note: See *Appendix C: Minority and Women Business Ownership* for more information on this measure.

SUBINDEX THREE: STRUCTURAL DIVERSITY

■ ***Sectoral Diversity***

Herfindahl index, indicating the degree of industrial diversity within the state's traded sector, 1989. Score.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "State Personal Income Summary Tables," unpublished data disk, Washington DC, August 1990. Calculations by Mt. Auburn Associates.

Note: For each state, the Herfindahl score is determined by taking the sum of the squares of each traded industry's share of total traded sector income. As a simple example, a state with only two traded industries, one which produces 60% of traded sector income and the other 40%, would have a Herfindahl score of .52 – that is, (.6 x .6) + (.4 x .4). A "0" score indicates perfect diversification; "1" indicates that the state is dependent on only one traded industry.

See *Appendix B: Traded Sector Strength and Structural Diversity* for more information on this measure.

■ ***Dynamic Diversity***

Index indicating the degree to which the employment levels in a state's individual traded industries moved in concert with one another, over the 1984-1989 period. Score.

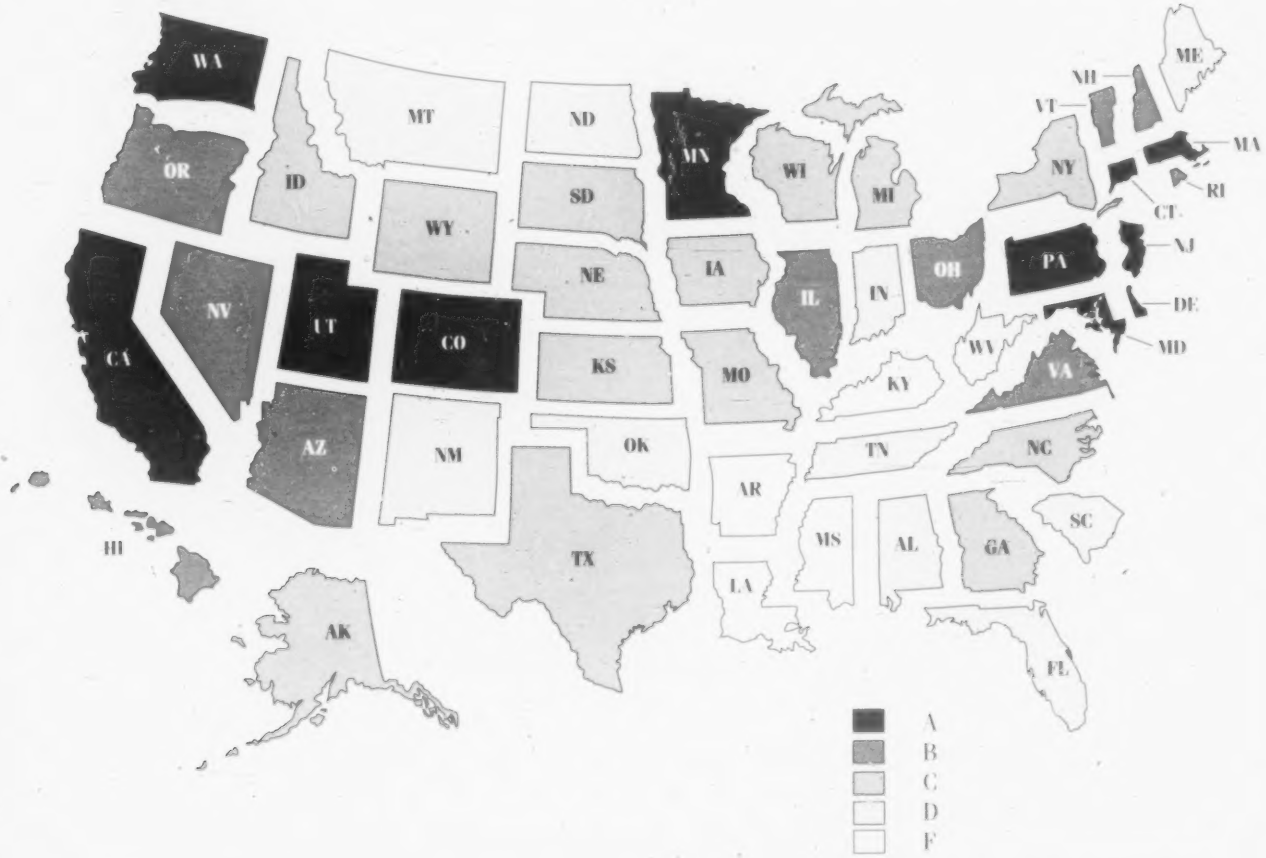
Source: U.S. Department of Commerce, Bureau of Economic Analysis, "State Employment Summary Tables," unpublished data disk, Washington DC, August 1990. Calculations by Mt. Auburn Associates..

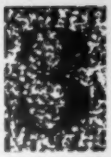
Note: Each state's score is determined by calculating the sum of the covariances of annual employment change for the state's twelve largest traded sector industries over the 1984-89 period. The lower the score, the greater the degree of dynamic diversity. Some states (Alaska, Arizona, California, Florida, Oregon and Washington) were assigned a score of "0" to avoid potential bias in this measure against fast-growing states. Ohio scored a true "0."

See *Appendix B: Traded Sector Strength and Structural Diversity* for more information on this measure.

Unless otherwise noted, the data for population calculations comes from the U.S. Bureau of the Census, press release, CB89-204, December 29, 1989, as reported in Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

The Development Capacity Index





Development Capacity Report Card

	Human Resources Subindex		Technology Resources Subindex		Financial Resources Subindex		Infra./Amenity Resources Subindex		INDEX GRADE	
	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade
Alabama	44	D	33	C	35	C	38	D	45	D
Alaska	12	B	29	C	42	D	23	C	30	C
Arizona	25	C	16	B	34	C	14	B	20	B
Arkansas	41	D	46	F	50	F	44	D	48	F
California	26	C	6	A	2	A	18	B	7	A
Colorado	2	A	2	A	37	D	2	A	5	A
Connecticut	10	A	5	A	5	A	23	C	5	A
Delaware	23	C	10	A	12	B	7	A	7	A
Florida	38	D	40	D	32	C	28	C	39	D
Georgia	41	D	39	D	18	B	25	C	34	C
Hawaii	28	C	28	C	15	B	5	A	14	B
Idaho	23	C	25	C	25	C	29	C	28	C
Illinois	27	C	21	C	8	A	32	C	19	B
Indiana	32	C	29	C	30	C	34	C	36	D
Iowa	19	B	20	B	43	D	42	D	35	C
Kansas	5	A	34	C	39	D	22	C	25	C
Kentucky	47	F	50	F	26	C	33	C	46	F
Louisiana	49	F	42	D	36	D	48	F	47	F
Maine	29	C	47	F	32	C	40	D	43	D
Maryland	17	B	4	A	26	C	8	A	9	A
Massachusetts	14	B	1	A	1	A	21	C	4	A
Michigan	34	C	19	B	17	B	30	C	25	C
Minnesota	3	A	14	B	7	A	1	A	1	A
Mississippi	50	F	48	F	46	F	50	F	50	F
Missouri	31	C	25	C	24	C	38	D	33	C
Montana	7	A	43	D	37	D	40	D	38	D
Nebraska	42	B	38	D	41	D	9	A	25	C
Nevada	11	B	31	C	27	C	18	B	16	B
New Hampshire	9	A	23	C	18	B	26	C	14	B
New Jersey	20	B	15	B	10	A	15	B	10	A
New Mexico	35	C	7	A	49	F	34	C	36	D
New York	39	D	8	A	3	A	44	D	24	C
North Carolina	45	D	32	C	9	A	18	B	29	C
North Dakota	16	B	41	D	44	D	43	D	42	D
Ohio	22	C	11	B	14	B	15	B	12	B
Oklahoma	36	D	35	C	47	F	31	C	44	D
Oregon	14	B	27	C	16	B	15	B	13	B
Pennsylvania	30	C	13	B	6	A	11	B	10	A
Rhode Island	37	D	9	A	4	A	37	D	16	B
South Carolina	48	F	43	D	40	D	10	A	41	D
South Dakota	21	C	49	F	20	B	26	C	32	C
Tennessee	46	F	37	D	23	C	34	C	40	D
Texas	40	D	17	B	20	B	13	B	22	C
Utah	1	A	3	A	29	C	3	A	3	A
Vermont	8	A	24	C	11	B	46	F	20	B
Virginia	33	C	21	C	22	C	11	B	16	B
Washington	3	A	11	B	13	B	6	A	2	A
West Virginia	41	D	45	D	47	F	49	F	49	F
Wisconsin	18	B	18	B	30	C	47	F	31	C
Wyoming	5	A	36	D	45	D	1	A	22	C

The Development Capacity Index

THE FUNDAMENTALS

When Louis Rukeyser, host of public television's acclaimed business program *Wall Street Week*, wants to feature a specific sector of American industry, he calls in a "fundamentals analyst," someone who studies that sector in depth and understands the underlying structure of the companies that comprise it. Fundamentals analysts look beyond current performance — as indicated by a stock's price and price/earnings ratio — to assess a company's earnings history, management structure, cash-flow trends, market position, R&D commitment, capital investment program, and more. They know there is more to most companies than meets the eye and that the only way to assess its real value as an investment prospect is to know its fundamentals.

The Development Capacity Index does the same thing for state economies. If the Economic Performance Index is like an annual report to stockholders, then the Development Capacity Index is like an independent report from an investment company's fundamentals analyst. It examines the underlying structure of each state's economy to provide a more comprehensive picture of its competitive capacity. To assess Development Capacity, we use 23 measures gathered into four subindexes:

- *Human Resources*: the education and skill levels of the state's workforce, increasingly the most critical capacity issue.
- *Technology Resources*: the extent to which new technologies and technically-proficient institutions and individuals are available.
- *Financial Resources*: the availability and patterns of use of capital to meet the full range of business finance needs.
- *Infrastructure and Amenity Resources*: roads, bridges, sewer, power, housing and other basic economic building blocks.

During the 1980s — the Raider Decade — in the business world, short-term profit-taking and financial manipulation triumphed over long-term strategic investing, bringing many corporations and a few industrial sectors very nearly to their knees. As the 1990s begin, a wave of bankruptcies involving long-established firms, the forced resignations of CEOs, and the indictment of their financial advisors has led to a reassessment of what really matters in corporate management. Burdened with crippling levels of debt, many of these companies find themselves poorly equipped to cope with competition under normal economic circumstances — and profoundly handicapped to compete during a recession. Having already slashed operating expenses to free up cash to cover interest payments, many highly-leveraged firms are unable to make needed long-term investments in competitive capacity.

Other firms — the ones that will lead during the 1990s — are making these investments even as they cut back elsewhere. As the CEO of B.F. Goodrich told *Fortune* magazine recently: "If you get rid of the long-term projects, you're mortgaging your future."

Mortgaging the future is exactly what many states were doing less than a decade ago in the name of economic development. By failing to take into consideration the full life-cycle costs of development projects, by offering recruited firms tax abatements and other financial inducements without addressing their long-term implications, and by postponing hard decisions about needed investments in "invisible" improvements in infrastructure or education, for example, many states let the fundamentals of their economies deteriorate while they sought more visible short-term results.

It took a surprisingly short time for the penalties of these practices to appear. When the economy turned global and highly competitive businesses began demanding better skilled workers, well-maintained infrastructure (from sewers to fiber optics), access to technology and investment capital, and an attractive quality of life, among other things, the states that had been making prudent investments began to pull ahead. Those that had not began to slip behind.

Looking ahead, this gap is likely to widen. When the recession hit in mid-1990, every state felt its pinch. But when the recession lifts, not all states will be able to recover easily. For example, the recession hammered both Ohio and West Virginia down to low grades in the Employment Subindex of the Economic Performance Index this year, but when the economy does turn around, Ohio, which just misses an *A* in the Development Capacity Index this year, is likely to bounce back quickly. West Virginia, which places 49th (*F*) in Development Capacity, will be hard-pressed to respond as vigorously.

Simply put, the winners in the new global economy will be states that invest in the "fundamentals" of development. But after years of underinvestment, in an economy that keeps "upping the ante" on these building blocks of development, no state can afford to meet these needs with taxpayer dollars alone. They will need the participation, ingenuity and resources of a wide array of public and private sector co-investors. And they will all have to be patient, not just prudent. There is much ground to be made up and the payoffs, while real, may be a long time coming.

DEVELOPMENT CAPACITY INDEX FINDINGS

Just *how* slow in coming is illustrated by comparing the Development Capacity standings of the states this year and last. Despite updates in almost all of the measures in this Index, and the replacement of one, 35 states got the same grade as last year and 11 held exactly the same numerical rank. Of the 15 that changed a grade, only about half moved more than a few numerical steps. More specifically, all but one of the states that received an *A* in Development Capacity last year earned the same grade this year. And at the bottom of the list, all five of the states that received an *F* last year earned the same grade this year. The results are largely unchanged not because the Index is insensitive, but because change in a state's fundamentals simply takes time. The investments are long-term and the payoff is slow.

Another characteristic of the Development Capacity Index is that it is predictive of state standings in the Business Vitality Index: 13 of the 21 states earning an *A* or *B* in Capacity earned similar grades in Vitality. Moreover, only four of the 15 states earning either *D* or *F* in Capacity earned better than a *C* in Vitality. It stands to reason: if the fundamentals are in place, businesses that want to grow have a better chance of doing so; if they're not, it's an uphill battle. There is also a cascading effect on the Economic Performance Index: only one state that received an *A* in Capacity earned less than a *C* in Performance, and only two of the states earning an *A* in Performance had less than a *B* in Capacity. In short, the stronger a state's development capacity is, the more vital its businesses and the better off its people.

At first glance, one might assume that any established industrial state with a solid foundation of industrial infrastructure would score high in this Index. But that's not the case; states like Illinois, Michigan and New York score only *B* or *C* grades in Capacity. The leaders in this Index are indeed industrial states, but they are the states that have worked hard to be on the leading edge of the technology-intensive global economy.

Connecticut, Delaware, Maryland, Massachusetts, New Jersey and Pennsylvania in the industrialized Northeast, and California, Colorado, Utah and Washington in the "newly industrialized" West. Minnesota, at the head of the class, is the only midwestern state at the top, though Ohio also puts in a strong showing. Some leaders, like California, have been in the forefront virtually from the start; others, like Pennsylvania, have retooled and regained competitiveness. What distinguishes them from their less successful neighbors — what distinguishes California from Arizona, for example — is the degree to which they are committed, not unlike Japanese manufacturing firms, to investing in continual improvements in their economic fundamentals. (See the State Policy Index for details.)

The states at the bottom of the Development Capacity Index, earning *D* or *F* grades, are states that either have failed to maintain their fundamentals or that never developed them in the first place. They include the poorest states in the Deep South and several of the thinly-populated Plains and Intermountain West states. Many of these states, despite economies that have been lagging for years, have made little effort to improve their fundamentals; others — like Kentucky, Mississippi and South Carolina — have marshalled their limited resources and made the commitment (again, see State Policy Index for details). Still, change will take time; Mississippi remains dead last in this Index and the other four states earning *F* — Arkansas, Kentucky, Louisiana and West Virginia— had the same grade last year and have been at or near the bottom every year since the *Report Card* was first published.

Between the extremes is a mixed group. Two patterns emerge among the states earning *C* in Development Capacity. Predominantly urban industrial states like Michigan, Missouri and New York — and even increasingly industrialized North Carolina — tend to do fairly well in the Financial and Technology Resources Subindexes, but poorly in either the Human or Amenity/Infrastructure Resources Subindexes. In effect, their businesses are well prepared for global competitiveness, but their cities and people are not. In contrast, predominantly rural, thinly-populated states like Alaska, Kansas, Nebraska and Wyoming tend to score fairly well in Human and/or Amenity/Infrastructure Resources Subindexes but poorly in the Financial and Technology Resources Subindexes. They have capable workers and attractive development sites, but are short on money and technological know-how. The scores of each group average out to the same Index grade, but their assets and liabilities differ dramatically.

HUMAN RESOURCES SUBINDEX FINDINGS

Perhaps the most intriguing aspect of the Human Resources Subindex findings is the geographic distribution of the grades. Every one of the 20 states earning an *A* or *B* is in the northern half of the nation, on or above 39 degrees north latitude. All but two of the 15 states earning a *D* or *F* are in the southern half of the nation, at or below that line. No state wholly below this line does any better than a *C*.

The reasons for this distribution may have more to do with culture, however, than with geography; all but one of the states earning an *A* and all but three of the states earning a *B* are predominantly rural and in many cases very thinly populated. In such states, education — especially completing high school — has traditionally been given high priority. Moreover, high schools are social and community focal points in remote states and there are few other diversions to lure young people away. Nearly everyone graduates.

Within this group, however, there are two distinctly different patterns. Some of the states, such as Montana, North Dakota and Wyoming, are "talent exporters" — that is, they appear unable to hold on to their high school graduates after commencement. Their college and high school education attainment scores are significantly lower than their high school graduation scores, suggesting that their graduates move elsewhere to find opportunity or further their education, and do not return. Literacy is high or at least average, but the population is not as skilled as in states with higher overall educational attainment figures.

In contrast, many of the other *A* and *B* states appear to be "magnets" — states that not only produce a lot of high school graduates but also attract skilled workers from outside the state because they are pleasant places to live, offer better job prospects, or both.

In these states, which include Colorado, Utah and Washington, among many others, overall educational attainment (high school and college) is higher than the high school graduation rate. The literacy rate in these states is higher as well. They are tough competitors in an economy where skilled workers are increasingly important.

States earning *C*'s in this Subindex tend also to fall into one of these two categories, but not as dramatically. Thus, their combined scores fall just a bit lower. Also in this mid-range are a number of states that have very high college attainment levels but very low high school graduation rates. Typically, these are urban states with strong economies but high dropout or illiteracy rates (or both). Included are New Jersey (which avoids a *C* by only one step), California, Virginia and, just over the line in the *D* group, Florida, New York and Rhode Island. While obviously attractive to highly-skilled workers, these states fall far short for their own residents.

The bottom of this Subindex is all too familiar: the southeast quarter of the United States, plus Appalachia. Despite decades of expressed concern about the educational deficits in these states, they still trail the rest of the nation. The five states with an *F* are the same as last year — Kentucky, Louisiana, Mississippi, South Carolina and Tennessee. And, while Arkansas and West Virginia improved their position slightly, all but one of the states earning a *D* are the same as well. The exception is Ohio, which jumped to a *C+* on the strength of a much improved graduation rate and improvements in high school and college attainment levels.

But improvement at the bottom may occur soon: some of the leading states in the Workforce Development Subindex of the State Policy Index are the ones with the lowest grades in this Capacity Subindex — Florida, Kentucky, Mississippi, North and South Carolina, among others. In time, they will give the less committed states a run for their money.

TECHNOLOGY RESOURCES SUBINDEX FINDINGS

This year's *Report Card* suggests that while technology is critical to growth in the new economy, it cannot guarantee it. Last year there was close correlation between the Technology Subindex and the Economic Performance Index. This year, as the recession begins to show up in employment and earnings data, many of the states with strong technology assets — California, Massachusetts, New York and Rhode Island, among others — have discovered that even high-tech economies get the blues. Shifting defense spending priorities and a shake-out in some sectors of the computer industry have hurt these states. That's the bad news. The good news is that when things turn around, most of these states will be prepared to take off again. Several have risen in the Technology Subindex even as their economies have weakened, including California, Massachusetts and Ohio. They have large pools of highly skilled technologists and strong R&D facilities, both critical to future growth.

The same cannot be said of the "low-tech" economies at the bottom of the Technology Subindex. These states, predominantly in the Deep South and Plains, tend to be weak across the board in this Subindex, neither attracting significant R&D investments nor producing technology professionals. Some — Mississippi and South Carolina, for example — are working to increase their own investments in R&D capacity, but their resources are limited and, like walking toward the horizon, the rest of the states continue to advance before them. South Carolina rises above *F* to *D* this year, but only barely; Mississippi's *F* grade and numerical rank are unchanged.

New Mexico continues this year to be a special case. It has one of the weakest economies in the nation while having some of the richest technology resources. Despite federal and university R&D investments that rank it 1st and 5th, respectively, and high numbers of technology specialists in its population, New Mexico still seems unable to get the research produced in its labs "over the fence." The situation is not only frustrating, but dangerous; without being able to commercialize the research underway in the labs (which tends to be top secret), the state is more dependent upon federal research and more vulnerable to shifting priorities than are other states with more easily commercialized research.

FINANCIAL RESOURCES SUBINDEX FINDINGS

The Financial Resources Subindex holds few surprises this year. The top states — those earning *A* and *B* grades — include the nation's leading investment and business development centers (California, Massachusetts, New York), their next-door neighbors (Connecticut, New Hampshire, New Jersey, Oregon, Rhode Island, Vermont, Washington), and a number of regional banking centers (Delaware, Georgia, Illinois, Minnesota, Pennsylvania).

This Subindex does not include data on thrift institutions because, by and large, their business lending is quite limited; thus, it does not document the crisis in that segment of the banking sector. But there *are* clues to changes in the commercial banking environment within this year's listings, the data for which extend to the second quarter of 1990. Sunbelt banking troubles, for example, show up in sharp drops this year for Texas — falling from an *A* to within one step of a *C* — and Arizona — falling from 21 to 34, though just maintaining its *C* grade. Maryland and Virginia experienced steep declines in both deposits and lending activity and drop from *B* to *C* this year, reflecting the slowdown in commercial construction in particular, and the regional economy in general. And while Massachusetts retains its top spot as the nation's strongest and most diversified capital center, Connecticut, Maine, New Hampshire and Rhode Island all lost ground, though they kept last year's grades.

A few states posted significant improvements in the Financial Resources Subindex this year. Michigan rose from *C* to *B* with across the board improvements in all six measures. North Carolina rose from *B* to *A* on the strength of a better showing in all the measures except venture capital. And both Hawaii and Washington rose from *C* to *B* with relatively good ratings overall and strong improvement in loans to equity. Finally, Utah — which has grown more competitive each year — rose from *D* to *C* in this Subindex through improvements in commercial lending and a big increase in venture capital disbursements.

The states that trail in Financial Resources are those in the South, Plains and Intermountain West. Some of these states are chronically poor and thus have very low bank deposit levels, like Arkansas, Louisiana, Mississippi, New Mexico and South Carolina. Others — Iowa, Kansas, Montana, Nebraska, North Dakota, Oklahoma, Wyoming — have relatively good deposit levels but chronically conservative banks whose loan to deposit ratios and commercial lending figures suggest they would rather invest depositors' money in bonds or other secure vehicles than make loans to build their local economies.

INFRASTRUCTURE AND AMENITY RESOURCES SUBINDEX FINDINGS

No matter how good its products, a company whose shipping, receiving, billing and other administrative departments don't function efficiently will eventually lose out to better-managed competitors. For the same reasons, a state that neglects its basic infrastructure — roads, bridges, sewer systems, housing, health delivery and related systems — becomes less and less effective at supporting its businesses. The deterioration of the bridges that link Manhattan with the rest of New York City and the world is only one example — albeit a dramatic one — of just how dependent complex modern economies can be on very basic support systems.

Despite its importance, infrastructure and its close relative, amenities, are extremely difficult to assess nationwide. Nevertheless, the eight measures used in this Subindex present a good picture of the basic systems that undergird the economies of the fifty states. They are, in an indirect way, a reflection of just how well run states are. Thus it is not surprising that there is a high degree of correlation between this Subindex and a recent assessment done by *Financial World* magazine of how well the states manage their financial resources. Eleven of *Financial World*'s top 20 states also score in the top 20 of the Infrastructure and Amenity Resources Subindex — basically for the same reason: states with the best infrastructure tend to be states with responsible and farsighted planning and budgeting systems.

But it also helps not to be too old. Most of America's heavily urbanized, older industrial states — Illinois, Indiana, Michigan, Missouri, New York and Rhode Island, for example — score only *C* or *D* grades in this Subindex. Their basic systems are overused, under-

maintained, and prone to breakdowns.

In contrast, the *A* and *B* grades tend to be dominated by "younger" states whose low population levels place little stress on their basic systems — like Nebraska, Utah or Wyoming — or that have been diligent about meeting maintenance and expansion needs — like California, Colorado, Hawaii and Washington, among others.

But there are exceptions in both these groups. There are older industrial states — Delaware, Maryland, Minnesota, New Jersey, Ohio and Pennsylvania, for example — that have made a significant effort to plan and budget for system upkeep and maintenance. And there are younger states that have failed to keep up with growing system demand — including Montana, New Mexico and North Dakota, among others. Finally, there are states, like New Hampshire, that have never made publicly-funded infrastructure a priority and, for the most part, do not intend to, preferring to leave as many of these responsibilities as possible to the private sector.

Many states earning the lowest grades in this Subindex have always had underdeveloped infrastructure systems, including Arkansas, Kentucky, Louisiana, Mississippi and West Virginia. But two otherwise well-developed states received an *F*: Wisconsin, which scored below- or well-below average grades in all but two measures, and Vermont, which scored very low grades in five of the eight measures.

The problem with under-investment in infrastructure and amenities is that, sooner or later, businesses and people begin to suffer. Well-maintained states, like well-run companies, tend to perform well economically: 13 of the 20 states earning *A* or *B* grades in this Subindex earned similar grades in Economic Performance. But the reverse is also true: 10 of the 14 states earning *D* or *F* grades here received a *C* or below in Economic Performance. Infrastructure investment is a simple case of "pay me now or pay me (more) later."

DEVELOPMENT CAPACITY MEASURES

SUBINDEX ONE: HUMAN RESOURCES

Economic development is a profoundly human process. While each of the subindexes in this Index is important to state economies, what it takes is people — skilled, educated, adaptable, innovative people — to use these building blocks and create the structure of an economy. The more skilled the people, the stronger and more lasting the structure of the economy they build.

The skills of a state's workforce, and the extent to which those skills are adaptable to changing economic circumstances, are the most basic components of its human resource base. The demand for these skills is accelerating. In Workforce 2000, the recent national study commissioned by the Department of Labor, author William Johnston forecast that more than half the new jobs generated between now and the year 2000 will require some education beyond high school. The more the workforce possesses these skills, and the more management makes use of them, the more competitive state economies will be.

While we would like to be able to measure actual skill levels within and across industries in state economies, no such information exists. Instead, this Subindex explores educational attainment measures, including high school graduation rates, adult illiteracy rates, and high school and college educational attainment rates.

■ ***High School Graduation:*** In an economy where the most basic qualification for most new jobs being created is high school completion, a state's economic competitiveness will be affected directly by its ability to produce new entrants to the workforce who meet this basic test of work-readiness. Despite differences from state to state in the level of competence associated with a high school education today, not to mention the national controversy over the inadequate skills of those who do graduate, this measure is still the best baseline we have available to gauge the skill level of tomorrow's workforce.

■ ***Adult Illiteracy:*** We also need to understand the skill level of a state's *existing* workforce if we are to assess the capacity of its economy to compete. Since nearly three-quarters of the year 2000's

workforce is already out of school, a state's and our nation's competitiveness is directly related to the literacy levels of adults now in the workforce. Unfortunately, literacy requirements in today's workplace run well ahead of the measured data we have on adult literacy. Although we know a wide range of skills is needed to secure work in today's economy, the only comprehensive state-by-state literacy data available for this measure is the U.S. Department of Education's "English Language Proficiency Survey" from 1985. It assesses only reading ability and, at that, only whether adults read at the fourth grade level.

■ ***High School Education Attainment:*** Another measure of the skill level of the state's *existing* workforce is how many of all its citizens have already graduated from high school. Here we identify the percentage of heads of household with at least a high school education as of the mid-late 1980s, based on merged Current Population Survey data for 1986 through 1988.

■ ***College Education Attainment:*** In an economy in which knowledge is itself a traded commodity, the higher the educational attainment of the population, the greater the capacity of the state's economy to compete. This measure identifies the percentage of heads of household with a college education as of the mid-late 1980s, based on merged Current Population Survey data for 1986 through 1988.

SUBINDEX TWO: TECHNOLOGY RESOURCES

Technological innovation produces the seeds from which businesses and economies grow. This is true not just of "high tech" businesses but, increasingly, of all businesses — from steel to finance, auto parts to textiles. The rapid acceleration of technological innovation has had much to do with the widening recovery of the nation's industrial states. The computer industry rose from the ruins of Massachusetts' industrial past, for example, and robotics and machine vision technologies have played a key role in the renewed competitiveness of heavy manufacturing in the Industrial Midwest.

Technological innovation transforms state economies in three ways: by creating entirely new industries when research spawns new products that meet or create new market demand, by improving existing products and rejuvenating existing markets, and by changing production processes in ways that lower costs, improve quality, or both. Often these are small advances, incremental increases in efficiency that provide a slight, often temporary, competitive edge. The more frequently these incremental advances occur, the stronger the state economy and the greater the growth in direct and indirect employment and income.

Moreover, innovation begets innovation. That is, as the pool of innovators and investments in research and development in a state increase, the number of businesses spawned or attracted by the innovation grows, reducing out-migration and increasing in-migration of workers and technicians and, in the process, generating new applications of the technologies being developed — and more new businesses.

People — highly trained management and technical specialists — and money, especially expenditures for research and development, drive this process. Accordingly, this Subindex examines the potential pool of innovators in a state, and the pool of dollars devoted to research.

■ ***Scientists and Engineers in the Workforce:*** The larger the potential pool of innovators in a state, the greater the likelihood that the capacity for innovation will become the reality of innovation. Not all innovators are scientists or engineers, and not all scientists and engineers are innovators. But there is a direct correlation between the technical capacity of the labor force and an economy's ability to generate new technology-based or -enhanced businesses, and that is what we seek to measure here.

■ ***Science and Engineering Graduate Students:*** This measure indicates how extensive science training is in a state, though not how many degree recipients actually stay in the state after completing their education. Nevertheless, the history of industrial innovation indicates that new businesses are spawned, more often than not, in the same place entrepreneurs received their degrees. Thus, as above, we can indi-

rectly measure the capacity for innovative business development by assessing the technical strength of the workforce.

■ ***Patents Issued:*** This measure aims to capture the rate of innovation in a state. It is imperfect in that patents generally are issued at the location of the company headquarters, not necessarily at the location of the lab where the innovation is developed.

■ ***University Research and Development:*** The close correlation between world-class university research institutions and commercial spin-off businesses has been lost on no state. Interest in the research agendas of major educational institutions has risen sharply. Budget allotments to public universities have also increased. And new university-government-industry partnerships are being formed. Unfortunately, private research spending, though a critical measure, is often proprietary and, therefore, unavailable. This measure gives us a rough approximation of the scale of research and development spending at universities in each state and, indirectly, the capacity for associated business development.

■ ***Federal Research and Development:*** There is a similar correlation between federal R&D spending and new business spin-offs. But the relationship varies significantly, depending upon what kind of research is underway. In states where much of the federal research is classified, the problem of getting the results "over the fence" and into the state economy can be quite considerable.

SUBINDEX THREE: FINANCIAL RESOURCES

The relative availability of capital in a state sends a signal to would-be entrepreneurs that their ideas can become businesses in that state, at the same time that it provides the wherewithal for businesses already in the state to continue to grow. The more developed the network between financiers — bankers, venture capitalists and others — and businesspeople and state economic development officials, the greater the capacity for growth in the state.

The kind of capital a business requires depends on what stage of development it is in. In its infancy, as ideas are being developed and commercialized, a business needs small amounts of "patient" money — equity and long-term debt. As it matures and expands, it needs larger amounts of equity, more working capital to finance its inventory, marketing and accounts receivable, and debt financing to acquire land, buildings and equipment. To stay competitive, it may also need long-term debt and equity to finance retooling and, in some cases, ownership changes. The lack of available capital at any of these stages can bring the entire enterprise to a halt.

State officials and business owners alike often express concern about "capital gaps" in their state — the perceived unavailability of money for expansion or start-ups, for example. Often the problem isn't that capital doesn't exist within the state, but that it's not accessible to the kinds of businesses that need it. Sometimes, the problem isn't even that capital is inaccessible, but instead that there is a shortage of credit-worthy business proposals.

But fundamentally, capital availability depends upon both the underlying capital resources of the state's financial institutions and how aggressively those institutions invest those resources in local businesses. While capital markets are increasingly national, and even international, wide variations in the levels and uses of capital from state to state can still affect capital availability. The commercial and investment banking industries are more competitive in some states than in others. Not all bank services and products are available universally. Formal venture capital, while increasingly mobile, still tends to be invested near where the venture firm is based, so that it can be monitored easily. Thus, the extent of capital gaps and their effect on development can differ significantly across the nation.

The measures in this Subindex cover a range of financing types, from venture capital to commercial bank financing, which includes fixed-asset and working capital loans. These measures indicate the overall extent of financing activity within a state. However, because of the limitations of published financial data, they cannot tell us what kinds of business — by size, sector, location or stage of development — are receiving financing, the specific types of financial instruments provided, or how the financing is used.

Moreover, there are other players in the capital marketplace that are not included here for several reasons. Thrift institutions, for example, have become very active in commercial real estate financing, but have been slow to enter the market for other forms of business financing. Commercial finance companies, while increasingly important sources of capital for small businesses, are not regulated, and little consistent information is available about their impact on a state-by-state basis. Insurance companies are another source of capital for corporations, but state-by-state data on their business-lending activities are not available.

Finally, financing provided through state development agency programs is not included here. Indeed, state governments have become increasingly important actors in the capital marketplace, creating their own public or publicly-chartered venture capital and business lending programs, adjusting their own investment policies, and regulating private financial institutions more strategically to achieve public development objectives. This increasingly important source of financial capacity is discussed in the State Policy Index.

While the subject is complex (and often contentious), this Subindex provides a general picture of the financial capacity of states — focusing primarily on its commercial banks — using six measures: bank deposits, loan-to-equity ratios, loan-to-deposit ratios, commercial and industrial loans, commercial and industrial loans relative to total loans, and venture capital investments.

■ ***Commercial Bank Deposits:*** Since deposits form the base from which banks invest, this measure provides a basic indicator of capital availability within a state. The higher the level of deposits, adjusted for population size, the more dollars available to lend.

■ ***Loans to Deposits:*** Another indicator of how aggressive a bank is emerges by examining the ratio of a bank's loans to its deposits. Deposits represent the major resource base upon which banks are able to lend funds. The degree to which banks actually lend deposits versus invest them in other vehicles like bonds, is a key factor in evaluating their overall aggressiveness.

■ ***Loans to Equity:*** Equity is the original investment of the bank-s founders plus any accumulated undivided earnings. The more aggressive the bank, the more this base is leveraged as loans to customers and businesses. This measure is designed to begin to get at how aggressive commercial banks are at using their resources to further business investments and expansions in the state.

■ ***Commercial and Industrial Loans:*** To measure how well financial institutions are serving businesses, we first take the total of their commercial and industrial loans, and then adjust for differences in the size of their commercial and industrial sector by dividing by the number of non-agricultural employees in the state. This adjustment provides an indication of demand for business financing. One weakness with this measure is that a bank can make loans to businesses located outside that state — and such loans cannot be separated out of this measure.

■ ***Commercial and Industrial Loans to Total Loans:*** Another indication of how well commercial banks are serving businesses is the extent to which their total loans go to commercial and industrial concerns, versus housing and consumer purposes.

■ ***Venture Capital Investments:*** Venture capital firms provide early-stage capital for businesses with high growth potential and, as a consequence, can be instrumental in the formation and expansion of growth industries. Active venture capital participation in a state is an indicator of a rapidly developing economy and multiple investment opportunities. It is useful to note here that despite the fact that the venture capital industry has grown sharply in recent years, it is still quite small and focused in only a handful of states. This year we measure the amount of venture capital disbursements made in a state, adjusted by the state's population.

SUBINDEX FOUR: INFRASTRUCTURE AND AMENITY RESOURCES

Almost without exception, recent surveys of businesspeople and public officials concerned about economic development rate two issues at the top of any list of factors important to development:

the condition of the basic infrastructure of the community or state, and the quality of the amenities in the area.

Physical infrastructure and amenities — roads, bridges, water systems, sewage collection and treatment systems, housing stock parks and recreation facilities, and cultural institutions — form the basic foundation upon which businesses build, and are crucial to attracting and keeping the employees businesses need to grow.

Broken water mains, overtaxed treatment plants, collapsed bridges and a pervasive failure of public agencies to invest in the maintenance of these facilities has led to widespread public concern about America's "infrastructure crisis." This concern has precipitated a number of studies, which have proven conclusively how such facilities contribute to state economies, and has led many states to rededicate themselves to improving these facilities as a central part of their economic development strategies. In a similar vein, states and communities have begun to restore and enhance the amenities that define the quality of life in an area and have made substantial investments to turn amenity liabilities — such as polluted rivers and harbors and decaying waterfronts — into showcase amenity assets.

For two issues so important to the economic capacity of a state, the absence of clear, nationally consistent state-by-state indicators is especially frustrating. To begin to explore the Infrastructure and Amenity Resources capacity of states, we examine highway condition, bridge ratings, urban mass transit availability, energy cost, unmet sewage treatment plant needs, housing cost, the availability of health professionals, and tourism spending. These measures are like pieces of a puzzle: individually they may reveal only a little, but taken together they begin to illuminate the overall capacity of a state's infrastructure and amenities.

■ ***Highway Deficiency:*** In an economy in which most goods are transported by truck, highway conditions are not just a measure of state infrastructure capacity, they are a fundamental measure of competitiveness as well. This year we measure the percent of rural and urban interstate mileage with poor serviceability ratings.

■ ***Bridge Deficiency:*** For the same reasons, this year we also examine bridge ratings — specifically, the percent of deficient bridges that receive federal aid, based upon a biannual report to Congress by the Secretary of Transportation.

■ ***Urban Mass Transit Availability:*** For two reasons — increasing the operating efficiency of metropolitan areas, and increasing the accessibility of the workforce to businesses — the availability of mass transit is an important capacity asset. We calculate availability by multiplying the total number of seats by the total mileage of service for all forms of public transportation for each metropolitan area, sum the products by state, and then divide by the total urban population for each state. The result is a measure of state effort — and capacity. This indicator would appear to shortchange states with small urban populations and lots of wide open spaces, and, to an extent, it does. However, many such states fare quite well (Alaska, Arizona and Utah, for example) because, despite their thin population density, they serve the populations in their larger cities well.

■ ***Energy Cost:*** Electrical energy continues to increase in importance as economies become more technology-intensive. Moreover, energy costs vary substantially from state to state and affect both business costs and living costs. This measure calculates the average price per kilowatt hour of energy sold by electrical utilities to their commercial, industrial and residential customers, using data provided by the Edison Electric Institute.

■ ***Sewage Treatment Needs:*** Without adequate sewage treatment plant capacity, existing businesses are constrained and new businesses must seek other sites. Using EPA data, we measure the dollar amount of unmet sewage treatment plant needs on a per capita basis.

■ ***Urban Housing Cost:*** Many areas of the nation face shortages of available housing that threaten to constrain development prospects, particularly in urban areas. However, no adequate state-by-state assessment of housing capacity is available at present. We explore this issue instead by considering the cost of housing as a percent of personal income, based upon a weighted average of fair market rent schedules for a standard unit of housing in metropolitan areas, as calculated by the U.S. Depart-

ment of Housing and Urban Development. We assume a direct relationship between availability and cost — that is, the scarcer the housing, the higher the cost of what is available.

■ ***Health Professional Shortage Areas:*** In the past, we have measured the availability of health services in a state by the number of doctors available to a state's residents. This measure was incomplete in that it failed to see how well distributed doctors were across a state, and also did not differentiate between doctors that do clinical work versus doctors that perform research.

This year, we have substituted a new measure that looks at the proportion of a state's population that resides in Health Manpower Shortage Areas — a Federal designation that indicates an area is underserved by primary medical practitioners for either economic or geographic reasons. While this measure is still not complete, because it depends on the area or state applying for such designation, it offers a more direct way to measure the availability of health services to a state's residents.

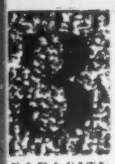
■ ***Tourism Spending:*** Another way to understand whether "this is a good place to live" is to observe people's behavior — specifically how much people pay to participate in recreation and tourism activities in a state. While this is an indirect measure of amenities, it has the advantage of being able to reveal how people value the amenities in a state — from amusement parks to campsites.

Development Capacity Data

HUMAN RESOURCES

	High School Graduation		Adult Illiteracy		High School Attainment		College Attainment	
	%	Rank	%	Rank	%	Rank	%	Rank
Alabama	74.9	23	13	31	63	48	14	48
Alaska	65.5	43	7	2	84	2	23	12
Arizona	61.8	48	12	25	81	7	23	12
Arkansas	77.2	17	15	40	65	44	14	48
California	65.9	42	14	33	79	16	26	5
Colorado	74.7	24	8	4	83	5	29	2
Connecticut	84.9	7	12	25	79	16	26	5
Delaware	71.7	32	11	17	77	22	21	19
Florida	58.0	50	15	40	76	25	21	19
Georgia	61.0	49	14	33	70	40	20	27
Hawaii	69.1	38	15	40	81	7	22	17
Idaho	75.4	22	8	4	77	22	16	42
Illinois	75.6	21	14	33	76	25	21	19
Indiana	76.3	19	11	17	76	25	15	45
Iowa	85.8	5	10	14	79	16	17	41
Kansas	80.2	9	9	9	81	7	23	12
Kentucky	69.0	39	15	40	64	46	15	45
Louisiana	61.4	47	16	47	68	42	18	36
Maine	74.4	25	11	17	76	25	18	36
Maryland	74.1	26	12	25	79	16	29	2
Massachusetts	70.0	35	11	17	80	12	30	1
Michigan	73.6	29	11	17	74	33	18	36
Minnesota	90.9	1	9	9	81	7	21	19
Mississippi	66.9	40	16	47	64	46	15	45
Missouri	74.0	28	12	25	74	33	21	19
Montana	87.3	4	8	4	80	12	21	19
Nebraska	85.4	6	9	9	80	12	19	32
Nevada	75.8	20	9	9	84	2	20	27
New Hampshire	74.1	26	9	9	81	7	24	10
New Jersey	77.4	15	14	33	76	25	26	5
New Mexico	71.9	31	14	33	76	25	20	27
New York	62.3	46	16	47	74	33	24	10
North Carolina	66.7	41	14	33	67	43	18	36
North Dakota	88.3	2	12	25	77	22	21	19
Ohio	79.6	10	11	17	76	25	18	36
Oklahoma	71.7	32	11	17	73	37	19	32
Oregon	73.0	30	8	4	80	12	21	19
Pennsylvania	78.4	14	12	25	74	33	19	32
Rhode Island	69.8	36	15	40	70	40	22	17
South Carolina	64.6	45	15	40	65	44	16	42
South Dakota	79.6	10	11	17	75	32	20	27
Tennessee	69.3	37	15	40	63	48	16	42
Texas	65.3	44	16	47	73	37	23	12
Utah	79.4	12	6	1	86	1	25	9
Vermont	78.7	13	10	14	79	16	26	5
Virginia	71.6	34	13	31	71	39	27	4
Washington	77.1	18	8	4	84	2	23	12
West Virginia	77.3	16	14	33	62	50	11	50
Wisconsin	84.9	7	10	14	78	21	19	32
Wyoming	88.3	2	7	2	82	6	20	27

Please refer to *Development Capacity Data Sources* and *Development Capacity Index* for further detail on individual measures.



CAPACITY

Development Capacity Data

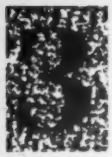
TECHNOLOGY RESOURCES

	Sci. & Engin. per 1,000 wkrs.		Sci./Eng. Stud. per 1 mil. pop.		Patents Issued per 1 mil. pop.		Univ. R&D per capita		Federal R&D per capita	
	#	Rank	#	Rank	#	Rank	$	Rank	$	Rank
Alabama	38.5	31	1,236.65	34	85.68	42	50.32	28	331.15	10
Alaska	47.7	15	837.74	47	73.58	45	107.59	3	95.82	25
Arizona	37.0	34	2,033.43	6	221.07	17	62.86	18	103.88	23
Arkansas	32.7	39	861.41	50	53.53	48	18.15	48	92.57	27
California	56.2	6	1,412.11	24	290.61	7	63.50	16	512.53	3
Colorado	64.8	2	2,271.69	2	265.06	10	68.26	12	424.61	6
Connecticut	63.2	4	1,356.17	27	526.54	2	87.81	6	191.26	13
Delaware	51.5	7	1,817.91	8	667.16	1	55.27	25	53.45	38
Florida	29.1	48	987.61	41	152.88	26	30.43	44	168.37	15
Georgia	31.8	43	1,071.74	39	109.47	36	64.84	13	54.44	37
Hawaii	42.8	26	1,672.97	13	63.96	47	63.61	15	73.95	28
Idaho	44.8	22	1,391.09	26	167.33	25	32.73	42	246.70	12
Illinois	42.0	28	1,664.32	15	265.95	9	51.85	27	72.97	29
Indiana	44.6	23	1,601.79	17	189.62	21	40.63	36	55.80	35
Iowa	40.0	29	1,750.35	10	150.35	27	73.71	10	69.41	31
Kansas	33.6	38	1,834.66	7	122.31	33	42.92	32	50.49	39
Kentucky	30.8	44	861.93	46	74.26	44	22.54	46	18.37	50
Louisiana	37.8	32	992.69	40	108.45	37	40.92	35	23.12	48
Maine	39.2	30	546.72	49	102.46	39	16.35	50	32.56	45
Maryland	58.5	5	1,598.72	18	189.98	23	196.39	1	927.79	2
Massachusetts	64.5	3	3321.15	1	361.76	4	146.71	2	456.95	4
Michigan	52.5	10	1,581.36	19	298.60	6	52.44	26	45.03	42
Minnesota	47.2	16	1,305.98	29	333.79	5	59.41	19	132.51	20
Mississippi	30.0	46	956.87	43	42.75	50	28.68	45	70.61	30
Missouri	46.7	17	1,266.67	32	136.63	28	49.43	29	123.60	21
Montana	29.3	47	1,198.77	35	107.41	38	40.26	37	44.02	43
Nebraska	37.8	32	1,446.58	22	81.99	43	58.30	21	32.35	46
Nevada	52.5	10	686.49	48	119.82	34	30.73	43	399.05	7
New Hampshire	49.7	13	888.29	44	287.39	8	56.16	24	54.96	36
New Jersey	53.3	9	1,411.37	25	424.42	3	36.59	39	156.32	16
New Mexico	50.0	12	1,690.85	11	122.88	32	89.13	5	1,502.65	1
New York	45.8	21	2,240.33	3	249.64	14	74.21	9	149.79	17
North Carolina	30.3	45	1,280.21	30	133.18	29	64.72	14	95.12	26
North Dakota	24.5	50	1,439.39	23	93.94	40	41.87	34	49.22	40
Ohio	48.7	14	1,799.82	9	262.51	11	38.26	38	171.01	14
Oklahoma	46.1	20	1,319.88	28	201.24	21	35.14	40	32.17	47
Oregon	42.3	27	1,272.34	31	254.96	13	57.14	23	60.39	34
Pennsylvania	46.7	17	1,503.57	20	247.84	15	63.22	17	143.82	19
Rhode Island	36.2	36	2,063.00	5	204.00	20	79.96	7	336.30	9
South Carolina	32.1	42	985.19	42	126.78	31	34.21	41	41.87	44
South Dakota	24.6	49	1,265.28	33	50.00	49	17.41	49	20.50	49
Tennessee	36.6	35	1,083.20	38	116.60	35	43.47	31	114.82	22
Texas	46.2	19	1,478.28	21	199.59	22	59.38	20	148.02	18
Utah	53.4	8	2,205.26	4	212.87	18	96.56	4	270.64	11
Vermont	32.5	41	1,084.21	37	235.09	16	75.38	8	98.59	24
Virginia	43.8	24	1,647.70	16	128.69	30	42.46	33	447.54	5
Washington	71.6	1	1,128.15	36	208.40	19	58.16	22	370.85	8
West Virginia	32.7	39	866.67	45	88.17	41	21.20	47	61.06	33
Wisconsin	43.0	25	1,679.26	12	259.96	12	69.20	11	45.85	41
Wyoming	35.2	37	1,670.83	14	72.92	46	49.07	30	61.12	32

FINANCIAL RESOURCES

Bank Deposits per 1,000 pop.		Loans to Deposits		Loans to Equity		Com. & Ind. Lns. per 1,000 wkrs.		Comm. Loans/ Total Loans		Venture Cap. per capita		
$	Rank	Ratio	Rank	Ratio	Rank	$	Rank	%	Rank	$	Rank	
7,257.38	37	0.74	31	7.55	36	3,310	21	26	21	316.60	31	Alabama
6,258.68	46	0.58	44	4.15	50	2,940	29	36	4	0.00	41	Alaska
7,283.40	36	0.77	26	9.94	17	2,340	40	19	42	1,007.61	13	Arizona
7,318.12	34	0.59	43	6.00	45	2,070	46	21	35	0.00	41	Arkansas
9,341.27	14	0.93	8	12.24	2	5,220	9	29	10	4,185.66	2	California
6,670.00	42	0.65	36	7.67	33	2,070	46	23	29	2,848.46	4	Colorado
9,554.01	13	0.82	22	13.33	1	4,160	13	28	12	2,415.56	5	Connecticut
14,946.27	1	1.75	1	8.20	28	17,060	2	11	50	486.72	26	Delaware
8,915.94	17	0.77	26	9.44	20	2,570	34	17	45	411.81	27	Florida
7,788.37	29	0.86	17	7.50	38	3,800	17	27	16	658.28	22	Georgia
14,356.00	3	0.68	35	9.76	19	5,860	7	28	12	0.00	41	Hawaii
6,493.62	44	0.85	18	10.24	14	3,130	25	26	21	322.87	30	Idaho
13,264.56	5	0.72	33	8.63	26	7,550	4	38	2	811.05	18	Illinois
8,301.43	21	0.76	29	8.07	29	3,110	26	24	26	233.35	35	Indiana
9,706.05	11	0.58	44	5.41	48	2,320	43	21	35	114.82	39	Iowa
9,981.70	10	0.58	44	6.46	41	2,790	32	23	29	129.92	38	Kansas
8,351.03	19	0.78	25	7.59	35	3,920	16	26	21	174.85	37	Kentucky
7,237.71	38	0.62	39	8.01	31	3,050	27	27	16	297.81	32	Louisiana
5,512.16	49	0.89	13	10.56	11	2,280	45	22	32	801.89	19	Maine
6,606.81	43	1.21	4	10.35	12	2,340	40	15	47	834.37	17	Maryland
12,147.19	7	0.91	11	11.56	5	7,850	3	37	3	5,297.06	1	Massachusetts
8,166.47	22	0.75	30	9.33	22	4,260	12	32	9	211.07	36	Michigan
9,241.70	16	0.79	24	9.29	23	4,970	10	35	5	1,874.14	6	Minnesota
6,959.45	40	0.62	39	7.05	40	2,370	39	22	32	0.00	41	Mississippi
9,641.22	12	0.71	34	7.81	32	3,390	19	24	26	631.98	24	Missouri
7,434.57	32	0.60	42	6.36	42	2,620	33	28	12	402.59	29	Montana
10,103.98	9	0.62	39	6.34	43	2,540	36	20	40	0.00	41	Nebraska
7,492.96	31	1.35	2	10.68	10	2,920	30	15	47	293.78	34	Nevada
7,304.14	35	0.92	10	12.07	3	2,550	35	20	40	881.35	16	New Hampshire
8,090.08	23	0.98	6	11.21	6	3,300	22	21	35	1,516.74	8	New Jersey
6,208.52	47	0.63	37	7.60	34	2,060	49	22	32	0.00	41	New Mexico
27,418.30	2	0.84	19	11.65	4	19,440	1	39	1	690.35	20	New York
7,985.77	25	0.95	7	10.25	13	4,450	11	29	10	297.81	32	North Carolina
9,326.76	15	0.57	47	6.00	45	2,390	38	21	35	0.00	41	North Dakota
7,887.12	26	0.84	19	9.23	24	4,010	14	28	12	687.47	21	Ohio
7,084.23	39	0.52	49	5.81	47	2,070	46	25	25	405.09	28	Oklahoma
6,303.43	45	0.89	13	9.90	18	3,970	15	35	5	578.19	25	Oregon
11,228.50	8	0.81	23	10.00	15	6,540	5	33	8	1,354.24	9	Pennsylvania
12,523.37	6	0.89	13	11.06	7	6,050	6	27	16	978.30	14	Rhode Island
5,131.18	50	0.89	13	9.39	21	1,590	50	16	46	650.34	23	South Carolina
13,323.71	4	1.31	3	7.54	37	5,330	8	15	47	0.00	41	South Dakota
7,810.22	27	0.73	32	8.31	27	2,950	28	24	26	3,036.56	3	Tennessee
8,337.47	20	0.54	48	7.38	39	3,400	18	35	5	1,247.59	10	Texas
5,746.54	48	0.84	19	8.70	25	2,530	37	23	29	1,716.32	7	Utah
8,896.86	18	0.93	8	10.71	9	3,290	23	21	35	1,144.21	12	Vermont
7,406.00	33	1.01	5	9.96	16	2,850	31	19	42	908.80	15	Virginia
6,743.17	41	0.90	12	10.79	8	3,320	20	26	21	1,233.15	11	Washington
7,806.34	28	0.63	37	6.02	44	2,340	40	18	44	0.00	41	West Virginia
7,723.48	30	0.77	26	8.05	30	3,180	24	27	16	66.96	40	Wisconsin
8,051.17	24	0.59	43	5.05	49	2,300	44	27	16	0.00	41	Wyoming

Please refer to *Development Capacity Data Sources* and *Development Capacity Index* for further detail on individual measures.



CAPACITY

Development Capacity Data

PHYSICAL INFRASTRUCTURE AND AMENITY RESOURCES

	Highway Deficiency		Bridge Deficiency		Urban Mass Transit		Energy Cost per kwh		Sewage Needs per capita		Urban Housing Cost		Health Shtg. Areas		Tour. Spend. per capita	
	%	Rank	%	Rank	Score	Rank	¢	Rank	$	Rank	%/Inc.	Rank	%/pop.	Rank	$	Rank
Alabama	0.1	4	48.61	36	0.76	45	6.76	27	132.77	17	37.2	16	7.5	38	477.7	50
Alaska	41.8	50	13.87	2	1.99	16	9.12	50	201.89	30	33.7	5	12.1	44	1,665.7	7
Arizona	13.3	36	7.33	1	1.88	20	7.52	36	152.25	18	45.0	38	5.1	28	1,571.3	11
Arkansas	4.4	17	44.66	32	0.76	45	8.42	44	106.64	11	37.5	17	6.6	34	761.7	42
California	8.1	26	25.70	13	2.48	11	8.38	43	180.90	22	49.1	45	3.5	18	1,226.8	13
Colorado	5.8	21	89.77	50	8.25	3	5.98	17	49.10	3	36.6	10	2.4	8	1,609.7	9
Connecticut	1.5	9	64.04	48	1.89	19	8.77	46	391.05	44	27.6	4	1.8	5	913.9	29
Delaware	0.0	1	23.71	11	1.39	29	8.34	42	122.39	14	43.5	33	2.8	9	1,092.1	20
Florida	6.7	24	21.74	10	1.28	31	8.83	49	314.44	39	40.5	26	5.6	30	1,890.3	4
Georgia	15.0	38	42.44	29	2.68	9	6.34	22	95.50	10	39.5	21	7.9	40	868.8	36
Hawaii	0.0	1	26.46	14	4.34	6	8.06	39	212.61	32	53.3	50	1.6	4	2,887.5	2
Idaho	15.4	40	28.68	17	0.91	40	3.79	2	64.36	6	45.2	39	14.8	49	1,023.5	21
Illinois	4.7	19	28.92	18	2.78	8	7.48	35	237.05	34	44.2	35	7.6	39	891.8	33
Indiana	5.2	20	43.71	30	1.53	26	6.88	29	283.01	36	38.6	20	3.6	20	565.5	47
Iowa	15.0	38	47.85	35	1.68	24	6.91	30	179.93	21	40.6	27	3.5	18	685.1	44
Kansas	11.0	31	49.65	38	1.49	28	6.43	23	193.23	27	36.3	8	1.3	2	847.3	38
Kentucky	2.8	13	59.24	45	1.52	27	6.11	18	297.05	38	36.5	9	5.2	29	632.7	46
Louisiana	9.2	30	45.28	33	1.56	25	5.93	16	194.98	29	45.7	42	9.2	42	835.3	40
Maine	9.0	28	29.69	19	0.85	44	7.01	32	236.07	33	46.3	46	4.8	26	1,731.1	6
Maryland	0.3	6	40.93	27	5.09	5	6.99	31	184.65	25	46.2	44	2.9	10	1,108.8	18
Massachusetts	4.1	16	38.74	24	2.65	10	8.32	41	921.32	50	40.0	24	3.0	11	1,117.0	17
Michigan	14.8	37	31.29	20	1.69	23	6.76	27	337.11	40	36.9	12	4.5	25	904.8	32
Minnesota	3.6	14	28.46	16	3.20	7	5.33	8	207.36	31	38.5	18	1.5	3	1,245.3	12
Mississippi	39.2	48	52.87	40	0.96	38	6.18	19	156.49	19	45.4	40	13.1	47	479.3	49
Missouri	40.0	49	63.61	47	1.97	17	6.54	25	185.08	26	37.1	14	5.8	31	1,002.6	24
Montana	9.1	29	59.05	44	1.37	30	4.09	3	70.37	7	51.1	49	8.4	41	905.4	31
Nebraska	2.1	11	55.51	41	1.86	21	6.63	26	61.49	5	35.7	7	3.4	15	815.9	41
Nevada	8.4	27	14.82	4	0.55	47	6.28	20	90.99	9	49.7	47	6.8	36	7,281.7	1
New Hampshire	10.8	33	43.74	31	1.03	36	8.64	45	638.74	48	23.3	2	2.0	6	1,784.9	5
New Jersey	3.8	15	35.08	23	2.40	12	8.82	48	432.95	45	44.5	37	0.9	1	1,663.9	8
New Mexico	12.9	35	21.63	9	0.95	39	7.37	34	60.13	4	45.8	43	18.4	50	1,218.0	14
New York	6.2	22	68.17	49	9.97	1	8.81	47	650.86	49	42.2	32	3.2	14	922.7	28
North Carolina	2.5	12	52.55	39	1.09	33	6.30	21	184.47	24	34.9	6	6.3	33	1,010.9	23
North Dakota	25.4	45	57.56	43	0.97	37	5.79	11	46.97	2	41.4	30	14.3	48	946.6	25
Ohio	10.2	32	20.56	8	1.80	22	5.72	10	287.90	37	37.1	14	3.8	21	674.2	45
Oklahoma	23.6	42	56.16	42	0.86	43	5.58	9	88.51	8	39.5	21	3.4	15	863.0	37
Oregon	35.2	46	17.18	5	5.45	4	4.27	4	348.23	41	43.5	33	6.6	34	1,016.3	22
Pennsylvania	9.3	31	39.66	25	2.01	15	7.33	33	119.52	13	41.5	31	2.0	6	931.5	26
Rhode Island	24.3	43	19.37	6	2.40	12	8.26	40	364.00	43	36.6	10	5.0	27	559.0	48
South Carolina	6.5	23	19.98	7	0.94	40	5.84	13	125.64	16	39.6	23	7.4	37	1,182.0	16
South Dakota	0.0	1	46.76	34	1.04	35	8.04	38	112.50	12	22.9	1	12.8	46	845.0	39
Tennessee	36.3	47	39.84	26	0.92	42	5.28	7	181.78	23	38.5	18	5.8	31	883.5	34
Texas	6.7	24	34.19	22	2.04	14	5.88	14	194.59	28	40.6	27	4.2	22	906.4	30
Utah	1.0	8	14.08	3	1.95	18	5.79	11	170.76	20	44.3	36	3.4	15	1,216.1	15
Vermont	4.4	17	49.19	37	0.00	49	7.66	37	354.39	42	50.5	48	3.1	13	2,723.7	3
Virginia	15.6	41	33.86	21	1.09	33	5.90	15	123.77	15	40.4	25	3.0	11	1,106.5	19
Washington	0.9	7	26.98	15	8.69	2	3.58	1	450.21	46	40.9	29	4.3	24	928.5	27
West Virginia	1.7	10	61.28	46	1.15	32	4.78	6	458.06	47	45.5	41	12.1	44	739.5	43
Wisconsin	24.7	44	31.91	28	0.24	48	6.44	24	247.23	35	37.0	13	4.2	22	874.1	35
Wyoming	0.2	5	23.92	12	0.00	49	4.31	5	35.42	1	26.4	3	11.3	43	1,574.7	10

Development Capacity Data Sources

SUBINDEX ONE: HUMAN RESOURCES

■ ***High School Graduation***
High school graduates as a percent of Fall 1985 9th grade enrollment, adjusted for interstate population migration and unclassified grade levels, 1988-89.
Source: Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

■ ***Adult Illiteracy***
Adults, age 18-64, considered "illiterate," 1985. Percent.
Source: Jack Brizius and Susan Foster, "Adult Literacy," *State Policy Reports*, November 9, 1987. From U.S. Department of Education estimates based on the "English Language Proficiency Survey," 1985.

■ ***High School Education Attainment***
Heads of household with at least 12 years of education, 1986-1988. Percent.
Source: Sheldon Danziger and Jon Haveman, unpublished tables, University of Michigan-Ann Arbor, 1990. Calculations based on merged U.S. Current Population Survey datatape from March 1987, 1988 and 1989.

■ ***College Education Attainment***
Heads of household with at least four years of college, 1986-1988. Percent.
Source: Same as High School Education Attainment.

SUBINDEX TWO: TECHNOLOGY RESOURCES

■ ***Scientists and Engineers in the Workforce***
Scientists and engineers per 1,000 workers, 1986. Number.
Source: National Science Foundation, Division of Science Resource Studies, "U.S. Scientists and Engineers," Washington DC, 1987.

■ ***Science and Engineering Graduate Students***
Science and engineering graduate students in doctorate-granting institutions, per 1 million population, 1989. Number.
Source: J.G. Huckenpöhler (Principal Author), "Academic Science/Engineering: Graduate Enrollment and Support, Fall 1989," National Science Foundation, Surveys of Science Resources Series, NSF 90-324, Washington DC, 1990.

■ ***Patents Issued***
Patents issued per 1 million population, 1989. Number.
Source: U.S. Patent & Trademark Office, Office of Information Systems, "Patent Counts by Country/State and Year, January 1963 - June 1990," A Technology Assessment and Forecast Report, Arlington VA, October 1990.

■ ***University Research and Development***
Research and development expenditures at doctorate-granting institutions, per capita, FY 1989. Dollars.
Source: Marge Machen (Principal Author), "Selected Data on Academic Science/Engineering R&D Expenditures, FY 1989," National Science Foundation, Division of Science Resource Studies Series, Universities and Colleges Studies Group, NSF 90-321, Washington DC, October 1990.

■ ***Federal Research and Development***
Federal obligations for research and development, per capita, FY 1988. Dollars.
Source: National Science Foundation, Division of Science Resource Studies, *Federal Funds for Research and Development: Fiscal Years 1988, 1989 and 1990, Volume XXXVIII*, NSF 90-306, Detailed Statistical Tables (Washington DC: National Science Foundation, 1990).

Development Capacity Data Sources

SUBINDEX THREE: FINANCIAL RESOURCES

■ ***Commercial Bank Deposits***
Commercial bank deposits per 1,000 population, 2nd Quarter, 1990. Dollars.
Source: Federal Deposit Insurance Corporation, Division of Research, unpublished data, Washington DC, 1990. Calculations by CFED.

■ ***Loans to Deposits***
Commercial banks' total loans and leases as percent of total bank equity, 2nd Quarter, 1990. Ratio.
Source: Same as Commercial Bank Deposits.

■ ***Loans to Equity***
Commercial banks' total loans as a percent of total deposits, 2nd Quarter, 1990. Ratio.
Source: Same as Commercial Bank Deposits.

■ ***Commercial and Industrial Loans***
Commercial and industrial loans per 1,000 production workers on non-agricultural payrolls, 2nd Quarter, 1990. Dollars.
Source: Federal Deposit Insurance Corporation, Division of Research, unpublished data, Washington DC, 1990; Bureau of Labor Statistics, "Local Area Unemployment Statistics," unpublished data disk, Washington DC, 1990. Calculations by CFED.

■ ***Commercial and Industrial Loans to Total Loans***
Commercial and industrial loans as a percent of total loans of commercial banks, 2nd Quarter, 1990. Percent.
Source: Federal Deposit Insurance Corporation, Division of Research, unpublished data, Washington DC, 1990.

■ ***Venture Capital Investments***
Private venture capital fund disbursements per capita, 1989. Dollars.
Source: Venture Economics, Inc., *Venture Capital Yearbook 1990* (Needham, MA: Venture Economics, Inc., 1990); CFED staff interview with Venture Economics, Inc., 1990.

SUBINDEX FOUR: PHYSICAL INFRASTRUCTURE AND AMENITY RESOURCES

■ ***Highway Deficiency***
Interstate highway mileage rated below the quality standard for designated use, 1987. Percent.
Source: U.S. Congress, House, *The Status of the Nation's Highways and Bridges: Conditions and Performance and Highway Bridge Replacement and Rehabilitation Program 1989. Report of the Secretary of Transportation to the United States Congress*, 101st Congress, 1st session (Washington DC: U.S. Government Printing Office, June 1989).

■ ***Bridge Deficiency***
Bridges on and off federal aid system rated as deficient, 1988. Percent.
Source: Same as Highway Deficiency.

■ ***Urban Mass Transit Availability***
Weighted measure of urban public mass transit systems' carrying capacity and mileage, 1988. Seat miles per capita.
Source: Richard Boyer and David Savageau, *Places Rated Almanac* (New York: Prentice Hall Travel, 1988).

■ ***Energy Cost***
Average cost of electricity per kilowatt hour, 1989. Cents.
Source: Edison Electric Institute, advance release of data for *1989 Statistical Yearbook of the Electric Utility Industry*, Washington DC, November 1990.

■ ***Sewage Treatment Needs***

Estimated backlog of sewage treatment plant unmet needs, per capita, 1988. Dollars.

Source: U.S. Environmental Protection Agency, *Assessment of Needed Publicly Owned Wastewater Treatment Facilities in the United States: 1988 Needs Survey Report to Congress*, 101st Congress, 1st session, February 1989, NTIS PB89-189633.

■ ***Urban Housing Cost***

Weighted annual average of fair market rent schedules for standard two-bedroom unit of housing, metropolitan areas (1990), as a percent of per capita income (1988).

Source: U.S. Department of Housing and Urban Development, "Fair Market Schedules for Use in the Existing Housing Certificate Program," *Federal Register*, October 1, 1990; *Survey of Current Business*, April 1989. Calculations by CFED.

■ ***Health Professional Shortage Areas***

State population without primary care within ready economic and geographic reach, 1989. Percent.

Source: U.S. Department of Health and Human Services, HRSA, Bureau of Health Care Delivery and Assistance, Office of Shortage Designation, "Selected Statistics on Health Manpower Shortage Areas," Washington DC, December 31, 1989.

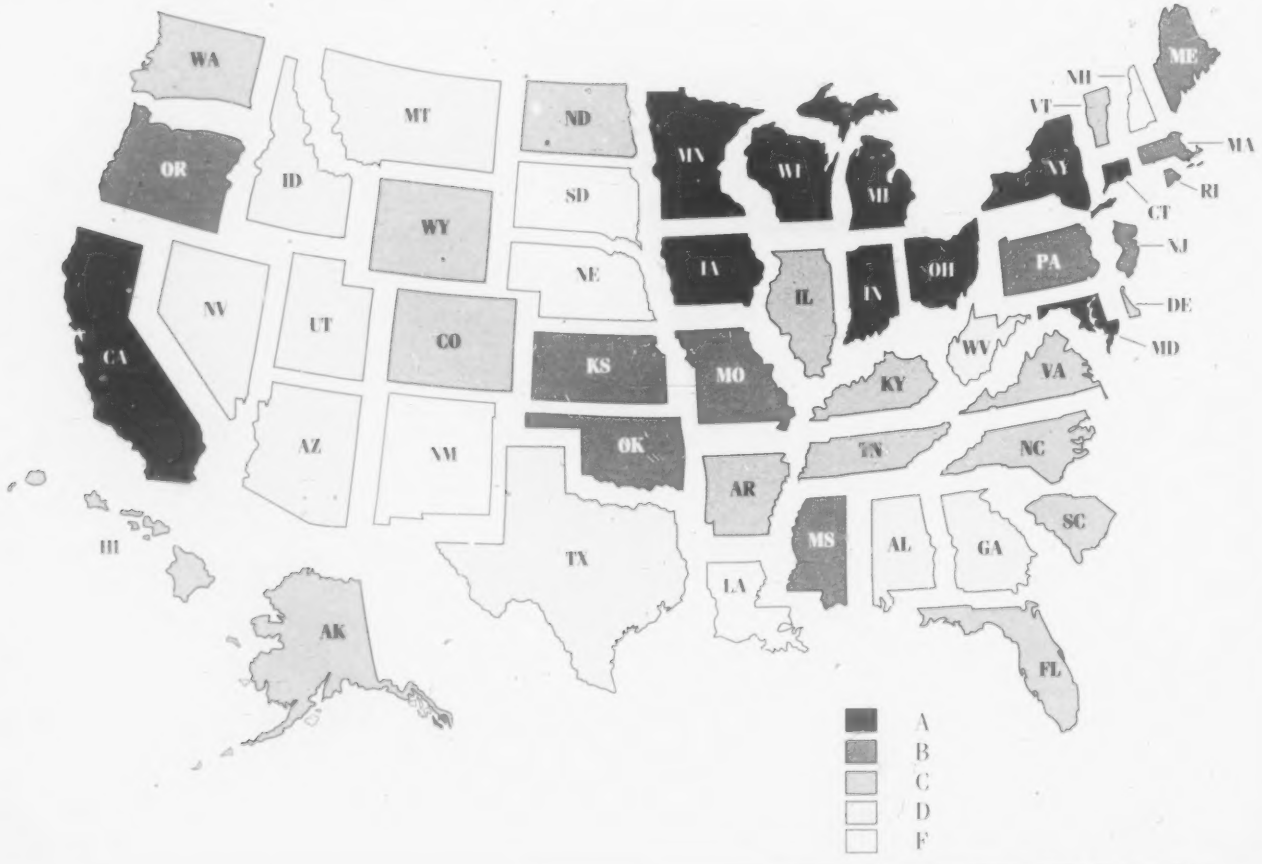
■ ***Tourism Spending***

U.S. domestic travel-generated entertainment and recreation receipts per capita, 1987. Dollars.

Source: U.S. Travel Data Center, *Impact of Travel on State Economies, 1987* (Washington DC: U.S. Travel Data Center, May 1989).

Unless otherwise noted, the data for population calculations comes from the U.S. Bureau of the Census, press release, CB89-204, December 29, 1989, as reported in Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

The State Policy Index



State Policy Report Card

	Governance Subindex		Workforce Development Subindex		Technlgy. & Innovation Subindex		Internt'l. Marketing Subindex		Development Finance Subindex		Local Econ. Dev. Assist. Subindex		Infrastructure & Amenities Subindex		INDEX GRADE	
	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade	Rank	Grade
Alabama	39	D	38	D	7	A	36	D	41	D	7	A	35	C	39	D
Alaska	33	C	29	C	42	D	14	B	27	C	1	A	31	C	25	C
Arizona	30	C	44	D	42	D	42	D	41	D	1	A	22	C	44	D
Arkansas	40	D	30	C	7	A	20	B	20	B	31	C	45	D	35	C
California	12	B	1	A	37	D	7	A	30	C	7	A	4	A	7	A
Colorado	10	A	47	F	18	B	18	B	30	C	31	C	36	D	32	C
Connecticut	19	B	1	A	18	B	40	D	8	A	7	A	13	B	9	A
Delaware	28	C	27	C	29	C	14	B	38	D	31	C	17	B	30	C
Florida	29	C	9	A	29	C	46	F	41	D	31	C	8	A	35	C
Georgia	25	C	37	D	29	C	38	D	19	F	7	A	27	C	42	D
Hawaii	17	B	6	A	18	B	36	D	30	C	48	F	28	C	29	C
Idaho	11	B	43	D	37	D	6	A	19	F	31	C	40	D	43	D
Illinois	37	D	35	C	18	B	21	C	20	B	7	A	20	B	23	C
Indiana	4	A	22	C	1	A	5	A	4	A	31	C	41	D	10	A
Iowa	6	A	5	A	1	A	3	A	1	A	7	A	14	B	1	A
Kansas	22	C	31	C	7	A	4	A	11	B	31	C	41	D	20	B
Kentucky	8	A	17	B	18	B	19	B	38	D	48	F	34	C	28	C
Louisiana	49	F	35	C	37	D	31	C	4	A	50	F	26	C	47	F
Maine	7	A	17	B	29	C	34	C	20	B	31	C	11	B	17	B
Maryland	47	F	4	A	7	A	12	B	8	A	7	A	9	A	6	A
Massachusetts	44	D	17	B	7	A	39	D	4	A	7	A	15	B	15	B
Michigan	5	A	25	C	1	A	8	A	2	A	1	A	21	C	4	A
Minnesota	1	A	12	B	18	B	1	A	8	A	7	A	5	A	3	A
Mississippi	20	B	8	A	18	B	23	C	25	C	7	A	29	C	11	B
Missouri	36	D	32	C	7	A	11	B	14	B	7	A	19	B	13	B
Montana	23	C	40	D	7	A	43	D	11	B	31	C	37	D	37	D
Nebraska	43	D	45	D	37	D	47	F	25	C	31	C	48	F	49	F
Nevada	38	D	25	C	50	F	25	C	41	D	7	A	37	D	45	D
New Hampshire	48	F	49	F	42	D	49	F	38	D	31	C	23	C	50	F
New Jersey	31	C	14	B	7	A	24	C	41	D	31	C	1	A	19	B
New Mexico	45	D	41	D	18	B	32	C	27	C	31	C	32	C	46	F
New York	2	A	1	A	1	A	27	C	8	A	1	A	2	A	2	A
North Carolina	26	C	10	A	7	A	41	D	41	D	31	C	33	C	31	C
North Dakota	8	A	49	F	18	B	35	C	14	B	7	A	46	F	25	C
Ohio	3	A	23	C	1	A	16	B	14	B	7	A	25	C	5	A
Oklahoma	24	C	42	D	7	A	27	C	2	A	7	A	29	C	16	B
Oregon	16	B	11	B	29	C	17	B	30	C	7	A	7	A	12	B
Pennsylvania	15	B	6	A	18	B	44	D	4	A	1	A	24	C	11	B
Rhode Island	20	B	21	C	29	C	26	C	20	B	31	C	3	A	18	B
South Carolina	12		15	B	42	D	9	A	30	C	7	A	39	D	21	C
South Dakota	41	D	48	F	37	D	33	C	27	C	7	A	50	F	48	F
Tennessee	50	F	30	C	29	C	29	C	30	C	7	A	17	B	33	C
Texas	30	C	23	C	1	A	48	F	30	C	31	C	47	F	40	D
Utah	14	B	46	F	42	D	10	A	30	C	7	A	48	F	38	D
Vermont	18	B	13	B	42	D	45	D	20	B	31	C	10	A	27	C
Virginia	46	F	32	C	7	A	22	C	41	D	7	A	11	B	24	C
Washington	26	C	17	B	29	C	30	C	41	D	7	A	5	A	22	C
West Virginia	32	C	27	C	42	D	50	F	14	B	1	A	44	D	40	D
Wisconsin	35	C	15	B	18	B	2	A	8	A	7	A	15	B	8	A
Wyoming	41	D	38	D	42	D	43	B	8	A	7	A	43	D	33	C

The State Policy Index

THE STRATEGIC PLAN

In the business world, when the going gets tough, the tough hire consultants — strategic planning consultants, to be precise. In larger corporations, a strategic planning division may provide the same service. The strategic planner's job is to help companies look at emerging trends in the market for their products, assess their ability to meet those demands, and analyze the investments they need to make in order to stay competitive. In a world where the urgent tends to drive out the important, these specialists have the unenviable task of ensuring that CEOs see far enough beyond the next quarterly report to make the investments necessary to ensure there will be future quarterly reports to worry about.

Governors and other public sector officials have the same problem. The pressure to produce highly visible short-term job-creation figures is precisely the same as the pressure corporate CEOs are under to produce impressive short-term earnings figures. In many states, the consequence of repeated postponement of critical long-term investments is that many governors and mayors, as Harvard political economist Robert Reich points out, "have little to offer except what is euphemistically known as 'a good business environment' — meaning low wages, few regulations, low taxes, and generous subsidies."

The problem, of course, is that these no longer are the critical factors for "a good business environment." In a global economy where cheap labor and low taxes are abundantly available in Third World nations, and production technology is as mobile as capital, the factors critical to economic leadership have changed. What matters are workers skilled at identifying, solving and brokering problems, the technological and financial resources to turn solutions into new products and services, and the transportation and communication infrastructure to export those products and services around the globe.

This is hardly news for the nation's governors. When it became clear in the early 1980s that recruiting industry from somewhere else did little more than pit their constituents against Third World workers in a competition for low-wage jobs — a competition in which even winning was a losing proposition — governors realized the rules of the economic development game had changed. Businesses were less interested in cheap labor than in skilled labor. They were less interested in low taxes than in quality public services — up-to-date infrastructure, a safe and clean environment, first-rate schools — services you can't provide with Third World tax revenues. What's more, governors realized that their best hope for generating better jobs and incomes for constituents lay with the businesses already in place or in the minds of their most talented entrepreneurs. Governors realized, finally, that the competition wasn't primarily their neighboring states, but rather advanced industrial nations the world over.

As the rules changed, the formula for economic development changed too. The "first wave" of development policies, designed to lure industry from somewhere else, was gradually supplemented with a "second wave" of policies designed to help the businesses at home grow.

Taken together, these second wave policies — addressing human, capital, technology, infrastructure and amenity resource adequacy and governance issues — are the public equivalent of a corporate strategic plan, a long-term strategy for competitiveness and growth. And just as some corporate CEOs are more farsighted than others, some states have been more aggressive in developing these policies than others.

The State Policy Index has documented the emergence of this second wave of economic development policies for half a decade. Indeed the Index has had to be modified every year to keep pace with state development innovations. This year, we document 93 individual measures, gathered into seven subindexes:

- *Governance*: state tax, regulatory and fiscal systems, liability reform, and government development planning and evaluation — measures to gauge, albeit indirectly, how well the state development effort is run.
- *Workforce Development*: the state's commitment to education investment, education reform, workforce investment and training and transfer payment investment, as components of a coherent policy for developing a competitive workforce.
- *Technology and Innovation*: the extent to which the state has invested in technology development and deployment to modernize existing firms and incubate new ones.
- *International Marketing*: the scope of a state's efforts to help its businesses sell to global markets.
- *Development Finance*: the state's efforts to meet the full range of business capital needs through direct investment, leveraging additional private resources, and changing capital regulations to release additional resources for development.
- *Local Economic Development Assistance*: the degree to which states provide staff assistance or funding to help local units of government plan and manage development.
- *Infrastructure and Amenities*: the extent of state effort to plan and budget for the development, maintenance and/or rehabilitation of public facilities, as well as housing, environmental and land use management programs.

The names of these subindexes are similar, with a few exceptions, to those in the Development Capacity Index and the similarity is not coincidental. The Capacity Index portrays the depth and breadth of a state's development fundamentals as they are today. The State Policy Index portrays the level of state effort to maintain or enhance those fundamentals in the future.

But there is an important distinction here. The Policy Index captures *which* tools states are using to strengthen their capacity to support development, but not *how skillfully or effectively* they use those tools. To draw a clearer distinction between counting programs and programs that count, we are offering a new discussion in the State Policy Index this year, *The Policy Impact Dilemma: From Programs to Productivity*. (Please see page 72.

It is important to remember that a state's standing in the State Policy Index is determined both by its own level of effort and by the efforts of other states. A state may have exactly the same development policies in place this year as last and still find its grade has changed, because other states have done more — or less.

Finally, note also that three states — New Hampshire, New Mexico and Wisconsin — did not respond to CFED's comprehensive policy survey this year, despite our efforts to follow up with them directly. Consequently, we have relied only on secondary sources to document their development policies. The impact of this decision was minimal on two states (Wisconsin still gets an *A* and New Hampshire still gets an *F*), but it may account for New Mexico's precipitous drop from *C* to *F* this year.

The Policy Impact Dilemma: From Programs to Productivity

Sometime in the mid-1980s, the word *partnership* crept into the lexicon of economic development and took up permanent residence. Mayors, commissioners, governors, legislators, even federal officials regularly proclaim the importance of partnerships between the public and private sector for the solution of the major economic policy issues of the day.

It wasn't a sudden burst of brotherhood that put the *P*-word on everyone's lips, it was the growing recognition that economic and social problems have become so complex and intractable that no single player — not government, not labor unions, not private industry — can wrestle them to the ground. Everyone needs to pitch in.

Even in the best of economic times, the cost of addressing urgent issues like workforce skill development, infrastructure rehabilitation or development finance is staggering. Wherever possible, private firms must help bear the burden; they are, after all, primary beneficiaries. And in a recession, with public revenues declining, deficits mushrooming and demand for public assistance soaring, meeting these needs through government action alone is simply impossible.

CONFRONTING OBSOLETE PUBLIC TECHNOLOGIES

It is impossible, in part, because public resources are not up to the task. According to the National Governors' Association, at least 30 states face massive budget deficits this year. Just as important, it is impossible because the "technology" government uses to provide development services is as obsolete and entrenched as the business management and production practices recently under fire in the U.S.

In the business world, management gurus like W. Edwards Deming and Peter Drucker have been advising companies to shift their focus away from short-term financial concerns toward improving the quality of their products and their responsiveness to customer needs.

This sage advice could easily be echoed for public development efforts. During our lifetime, typically the way government has responded to development needs is by creating a "program." Rules are written, eligibility requirements established, budgets approved, and departments created to administer them. But after that, programs are left all alone to fix the problem. There is seldom a mechanism for customer feedback; there is not enough systematic performance monitoring; there are too few incentives for producing quality services; there are insufficient rewards for employees who respond quickly and imaginatively to customer needs; and there is rarely a simple way to shut down programs that are no longer needed. The result often is an inflexible bureaucracy — in short, the kind of organizational system *least* likely to perform well in a rapidly changing world.

MAKING PROGRESS: SECOND WAVE STRATEGY, THIRD WAVE TECHNOLOGY

When state and local officials realized early in the 1980s that their traditional, "first wave" development strategy — industrial recruitment — could not create enough jobs to meet the growing need, they shifted some attention to spawning new businesses and helping existing firms grow. Analyses showed a wide range of barriers to the birth, growth and expansion of indigenous businesses — gaps in the capital market, poor access to technology, poorly educated and unskilled workers, inadequate infrastructure, and more.

One by one, states replaced or augmented their old recruitment programs with a new array of direct investments in programs to help businesses overcome these barriers. The State Policy Index has documented the growth of these investments for half a decade, giving states that were moving aggressively to create these "second wave" development techniques higher grades than those that were not.

But a few years ago the public officials at the forefront of second wave development began to discover that the service delivery methods that had been good enough when the task was attracting several dozen factories to create a few thousand new jobs were completely inadequate to the task of helping thousands of companies create tens of thousands of jobs. While acknowledging that overcoming years of underinvestment in development capacity would take time — at least a generation, in the case of education reform — the plain fact was that even the most aggressively innovative states were not happy with the *impact* of the investments they were making.

That's where the "partnerships" came in. Eager to find ways to extend the reach of limited — and dwindling — resources available for development, public officials enlisted the help of private sector players, often creating new quasi-public organizations to make that help possible. Gradually, state by state and town by town, these leaders are creating a "Third Wave" of economic development technologies that promise to improve the productivity of governance and extend dramatically the reach of public economic development investments.

THIRD WAVE FEATURES

Writing recently in the *Harvard Business Review*, business professor Robert Eccles argues: "Within the next five years, every company will have to redesign how it measures its business performance." He should have added every public development agency as well. What Third Wave state and local officials are trying to do is find ways for public agencies to participate imaginatively — and *productively* — in producing a significant and measurable impact on the needs they are addressing.

And there is no shortage of ideas once public agencies are given incentives to manage imaginatively. While the details of the Third Wave economic development technologies already being created around the country vary, they tend to have several common characteristics.

- They seek to meet the *scale* of development need by ensuring the availability of a wide variety of service providers — among public development agencies providing similar services and non-profit and for-profit private sector organizations.
- Given the limits of public resources, these initiatives typically *leverage* significant amounts of private resources in order to generate the level of resources necessary to achieve real impact.

■ The form and substance of public development services are *customer-driven*, not agency-dictated, giving "customers" the power to choose which services will serve them best.

■ These programs tend also to be *decentralized*, with both the responsibility and authority for providing services located as close to customers as possible.

■ Funding is *performance-based*, with resources (including budget savings and program earnings) flowing toward whichever provider does the job efficiently — and away from those that do not.

■ The best initiatives restructure the system of public incentives and rewards to focus on the *prevention* of problems rather than their cures, addressing the long-term costs of action and inaction, not just the short-term benefits.

GRADING THE 1991 DEVELOPMENT REPORT CARD: INCOMPLETE

For half a decade, *The Development Report Card* has documented the explosion in state development policy. The irony, of course, is that while the State Policy Index tells us *what* states are doing, it tells us neither *how* nor *how well* they are doing it. It offers no insight on the one issue that is paramount, especially in a recession: Are these innovations achieving their objectives efficiently and effectively? Are these new ideas *good* and *productive* ideas?

So, in the State Policy Index at least, we must grade the *Report Card* "incomplete." Describing the Economic Performance, Business Vitality and Development Capacity of state economies is essential to any audit of economic soundness, just as is documenting what states themselves are doing to improve their capacity to support new growth. But as we look ahead to the task of preparing next year's *Report Card*, getting from the *What?* to the *So What?* of the State Policy Index will be a crucial task.

TOWARDS 1992: TESTING THIRD WAVE POLICIES

As state and local governments seek to address increasingly urgent economic problems with decreasingly adequate resources — a budgetary and political fact of life that will survive long after the recession fades — the need to improve government productivity will become more and more urgent. As CFED tackles the problem of measuring the productivity and impact of state development policy — gauging the *how* and *how well* of Third Wave development effort — we must improve our own framework for examining policy: once again, *we must ask the right (new) questions.*

To start, sorting out Third Wave *strategies*, *tactics* and *impacts* can make the difference between effective and ineffective action, between efficient and inefficient expenditures — in short, between doing *more* with less or *less* with less. Here is the beginning of our thinking. As always, CFED welcomes your suggestions and comments.

Strategy Analysis

Developing a coherent economic development strategy before making specific development decisions is a hallmark of Third Wave management. The key strategic questions are:

1. What markets are we in and what is the competitive position of our businesses in those markets?

2. Who are our customers and what are their needs (that is, what are the barriers to success in these markets)?

3. What are our goals for the development of these businesses?

4. What will it take to reach those goals?

5. What should government provide and what should other parties provide?

Tactical Analysis

Having sorted out the strategic questions and, in the process, identified the stakeholders and the key market barriers — human, capital, technology, infrastructure resources, as appropriate — apply the same rigor to each proposal for addressing those barriers:

1. Can we create a market through which the development objective can be achieved competitively?

2. Does a given development proposal leverage enough private sector resources to meet the objective efficiently at minimum public cost?

3. Does the proposal address root causes or only symptoms? Is it anticipatory or reactive?

4. Does the proposal wholesale needed services through local institutions, or does it try to retail them from the state level?

5. Does the proposal encourage beneficiaries to participate in defining, and take responsibility for achieving, the development objective?

6. Does the proposal have the potential for generating a new revenue stream? Does it capture that opportunity?

7. Does the proposal include incentives to promote and reward efficient and customer-sensitive public agency actions?

Impact Analysis

In economic development, as in other public policy, once a program has been established, it is nearly impossible to have it altered or eliminated for cause. Ironically, it is almost equally impossible to shield efficient and effective programs from across-the-board cuts when budgets are tight, because there typically is no mechanism for objectively evaluating impact. But because rewarding productivity is a central feature of ensuring that effective programs are adequately capitalized, evaluation is crucial. The key questions are:

1. Does the proposed program incorporate an explicit mechanism for soliciting, recording and responding to customer feedback?

2. Does the proposed program specify measurable targets for market penetration and development impact?

3. Does the proposed program incorporate mechanisms (unsubsidized interest levels, matching fund requirements, for example) that will serve as a "market test" of demand?

4. To what extent is the proposed program linked to education, training, social service, and other development-related programs so as to best leverage existing public resources?

STATE POLICY INDEX FINDINGS

The unifying characteristic of the states that top this year's State Policy Index with *A* and *B* grades is that, with minor exceptions, they all have experienced deep and relatively recent economic hardship. Some — including Connecticut, Maine, Massachusetts and Rhode Island — saw their economies deteriorate in the 1970s when many of their traditional industries headed South or closed altogether. Others — Indiana, Michigan, Ohio and Pennsylvania, among others — were hammered during the last recession, when cyclical and structural declines coincided, and they were forced to rethink their economies and their economic development strategies completely. Some — Iowa, Kansas and Oklahoma, for example — weathered that recession, only to be hit hard by the collapse of the farm economy and energy sector in the mid-1980s, forcing the same reappraisal.

Few of the leading states has had it easy; hence, you won't find Florida, Hawaii or Nevada here, with economies borne along on the crest of rapid population growth or a boom industry. The leaders in this Index are like companies that have battled back from the brink of bankruptcy to repay their creditors and grow against the odds. They are typically the turn-around states, innovators by necessity.

Most Policy Index leaders were leaders last year. Though many have moved a few points up or down in relation to each other, fully 18 of the 20 states earning *A* or *B* grades in Policy this year earned either *A*'s or *B*'s last year, and one of the remaining two missed an honor grade last year by only one step. The surprising newcomer — Mississippi — is among the most innovative states in the "New South," states determined, in the words of Mississippi Governor Ray Mabus, "never to be last again." With improvements in virtually every State Policy subindex, Mississippi made an impressive 18-step leap into the *B* grades this year.

At the bottom of the list, earning *D* or *F* grades overall are two state groupings. The first includes states whose populations have grown so rapidly during the past decade — including Arizona, Georgia, New Hampshire, New Mexico, Nevada, Texas and Utah — that the creation of economic development policies has simply not been a priority.

A second group is composed of states that have economies dominated by oil, gas, mineral, and timber extraction industries — Idaho, Louisiana, Montana, New Mexico, South Dakota and West Virginia, as well as a few from the first group. Traditionally conservative about government intervention into economic affairs, these states are accustomed to waiting out cyclical swings in the fortunes of their industries. But it has been a long wait; the recovery in the late 1980s never reached most of these states and they have had some of the weakest economies in the nation, both in terms of Economic Performance and Business Vitality, every year since the *Report Card*'s inception. Addressing the challenge of fundamental structural economic change is an overdue task for these states.

In between the high and low grades there is a lot of churning this year. Roughly half the states earning a *C* earned a higher or lower grade last year. South Carolina, another of the leading southern states mentioned above, showed an impressive gain from a *D* to a high *C* — just missing a *B* grade. In two other states showing strong gains — Colorado and Vermont — the reason was probably their failure to respond to the Policy Survey last year. Of the six other states that changed grades, four — North Carolina, North Dakota, Tennessee and Wyoming — improved, some quite significantly, and two — Virginia and Illinois — dropped as other states outdid them.

The message in this index is that most states are working hard to develop effective economic development policies, policies designed to strengthen the full range of "fundamentals" critical to business growth. The field is crowded and highly competitive, and even well-positioned states have to work continuously to maintain their "market share."

GOVERNANCE SUBINDEX FINDINGS

It is hard to imagine anything more important to a good business climate than a government that is well-run, but it's even harder to imagine how to measure that condition precisely. The Governance Subindex examines the

structure, stability and fairness of a state's tax and fiscal system, its efforts at regulatory reform, and whether the state has a formal economic development strategic plan (the public version of a company's business plan) and has completed a recent development program evaluation.

The states with the strongest showing in the Governance Subindex include the industrial states that have been among the leaders in development policy: Indiana, Michigan, Minnesota, New York and Ohio. These states not only have balanced tax systems and a history of regulatory reforms, but they've also been among the most thoughtful states in approaching their economic development agendas — thinking strategically both about the steps they should take, and how to learn from their efforts over time.

States trailing in the Subindex include many that do poorly across the Policy Index as a whole — states like Louisiana, Nebraska, Nevada, New Hampshire, New Mexico and South Dakota; with a less-interventionist approach to government. The lower grades also include a few surprises in Maryland and Massachusetts, two overall Policy leaders. Although these two states clearly have initiated many capacity-building programs, they do poorly in Governance because their many development initiatives have not been tied to an overall strategic approach, and because they have been relatively inattentive to how their regulatory efforts affect their development needs.

WORKFORCE DEVELOPMENT SUBINDEX FINDINGS

Perhaps not surprisingly, the leaders in this Subindex (again, with minor exceptions) are America's most advanced industrial states — states that have grasped the central fact of competitiveness in a global economy: economic leadership is driven by value-added and value-added is created by highly skilled workers. Included at the top are California, Connecticut, Maryland, New York and Pennsylvania, along with four "up-and-comers" — Florida, Iowa, Mississippi and North Carolina. Earning *B* grades in this Subindex are increasingly technology-intensive economies very like the leaders — Maine, Massachusetts, Minnesota, New Jersey, Oregon, Vermont, Washington and Wisconsin — as well as two hard-driving new competitors — Kentucky and South Carolina.

At the other extreme, earning *D* and *F* grades, are states with generally modest economies and/or a tradition of minimal state involvement in education, training and other economic development issues: Idaho, Montana, Nebraska, North and South Dakota, among others. Several states that can trace their successful growth to population surges or the spillover effects from a neighboring state, but whose own workforce development efforts lag other states, are also in this category, including Arizona, Colorado and New Hampshire. Utah, whose traditional workforce strength may reduce its need for proactive polices, also scores poorly in this Subindex.

TECHNOLOGY AND INNOVATION SUBINDEX FINDINGS

The state standings in the Technology and Innovation Subindex fall into three quite distinct categories. The leading states, those earning *A* grades, are, with a few exceptions, those working hard to build up under- or narrowly-developed economies or retool uncompetitive industries. They include Arkansas, Alabama, Iowa, Kansas, Montana and Oklahoma in the first case, and Indiana, Michigan, Missouri, New Jersey and Ohio, among others, in the second. Other strong states include those that have been long-time investors in their high-tech capacities — Maryland, Massachusetts, New York, North Carolina, Texas and Virginia.

In the middle ranks, generally earning *B*'s and *C*'s, are states whose industries, for the most part, are already technology leaders, including Connecticut, Delaware, Minnesota, Oregon, Pennsylvania, Washington and Wisconsin, among others. Also in this group are a few underdeveloped states that have just begun the technology enhancement process, including Florida, Georgia and Mississippi.

The bottom of this Subindex is dominated by predominantly "low-tech" economies whose investments in upgrading have yet to achieve the levels of their higher grade rivals. These *D* and *F* grade states include, for example, Alaska, Idaho, Louisiana, South Dakota, West Virginia and Wyoming. Anomalies in this group include California and its "satellites" — Arizona, and Nevada. These

states apparently feel no need to develop public technology deployment initiatives; strong technology-based industrial development is already occurring unassisted in their private sectors.

INTERNATIONAL MARKETING SUBINDEX FINDINGS

This year's expanded International Marketing Subindex includes three new measures of state activity: multistate trade efforts, trade missions and trade shows. The broader Subindex provides a stronger picture of the full range of trade activities that states now undertake, although among all the areas the State Policy Index examines, this is clearly the one in which there is the least consensus or understanding regarding which approaches work most effectively.

Minnesota continues to lead the pack in international activities, along with other manufacturing- or agriculture-dominated states such as California, Delaware, Indiana, Iowa, Kansas, Maryland, Michigan and Wisconsin. Also near the top are a number of resource-dependent states that invest a relatively high percent of their total development spending in trade — Alaska, Idaho, Oregon, Utah and Wyoming — thereby showing much higher levels of staff and trade seminars, even when adjusted for the number of business establishments in the state.

DEVELOPMENT FINANCE SUBINDEX FINDINGS

To a surprising extent, the Development Finance Subindex is an artifact of the relative age of state economies. Many states at the top of this Subindex are America's older industrial giants — Connecticut, Indiana, Massachusetts, Michigan, New York, Pennsylvania, and so forth. These states, having borne the brunt of the structural economic changes that swept the country during the past decade, have become, out of necessity, among the most innovative economic developers. With limited resources of their own and a massive industrial retooling task before them, they have created — through direct action, leveraging and regulatory reform — many of the public and public-private development finance innovations that have become state-of-the-art. They are joined in the *A* and *B* grades by an array of other states that are trying to address gaps in their private capital markets and that are, in effect, the beneficiaries of the "pioneers'" experiences. These additional states include Arkansas, Iowa, Oklahoma and West Virginia, among others. Wyoming and Louisiana, both with impressive arrays of development finance activity, repeat their 1990 *A* achievement in this Subindex.

The states at the bottom of this Subindex have "younger" economies that have undergone such rapid population growth in the past decade that getting a handle on it, rather that spurring it on with capital market innovations, is their problem. Capital has been readily available and these states — Arizona, Florida, Georgia, Hawaii, Nevada, New Hampshire and Washington, among many others in the *D* and *F* range — have not felt the need to create new financing vehicles.

LOCAL ECONOMIC DEVELOPMENT ASSISTANCE SUBINDEX FINDINGS

As the burden for a wide range of development-related activities continues to devolve to lower levels of government, the importance of the relationship between state and local government has intensified. Using data from a new U.S. Department of Commerce study, this Subindex looks at state staff or funding assistance to local governments for community, regional, and project feasibility or program development planning, as well as organizational capacity-building. As it turns out, six states — Alaska, Arizona, Michigan, New York, Pennsylvania and West Virginia — provide all four, and well over half the fifty states provide at least three of these types of assistance. Only one state, Louisiana, provides none, and only two, Hawaii and Kentucky, provide just one.

INFRASTRUCTURE AND AMENITIES SUBINDEX FINDINGS

In a very basic sense, economic development is the product of an unspoken and informal agreement between government and industry: if government builds and maintains public works for which, due to a variety of good reasons, the private economy is not responsible, the private sector will produce goods and services and jobs. The more responsibly government performs its task, the more attractive the location and the more likely businesses will be born, relocate or expand. If government

fails to address both the day-to-day management of and the long-term planning and budgeting for this public infrastructure, the area eventually will become less and less attractive for business development and the economy will decline.

Thus, the Infrastructure and Amenities Subindex is a kind of roster of responsible managers. The states at the top are making an effort to keep their part of the bargain and those at the bottom, for whatever reason, are not — *or* feel there is no great demand for them to do so. The results, then, are not surprising: the leaders are America's most complex industrial economies — states like California, Minnesota, New Jersey, New York, Oregon and Washington, for example. They are also, by and large, older economies where the need to address these issues is greatest — where the basic infrastructure (roads, bridges, water and sewer systems) is overutilized and in need of repair, where public assistance is central to the provision of housing for disadvantaged populations, and where environmental rehabilitation and wise land-use management is a priority need.

The states at the bottom of this Subindex do less, in part, because they have less to do. Most are thinly populated, have a light and generally underutilized infrastructure, and offer relatively few public services, although some clearly continue to face important environmental challenges. They include Idaho, Montana, Nebraska, Nevada, North and South Dakota, Utah and Wyoming, for example. Some are simply poor and cannot meet the need; such states include Alabama, Arkansas, South Carolina and West Virginia. A few have grown so much that they no longer can explain their standings this way, however. Texas, for example, has developed a complex economy but still has the infrastructure profile of a simple Plains state economy. Colorado and Indiana are also oddities at this end of the list.

Finally, even for the leaders, the difficulty of measuring state commitment and investment in infrastructure and amenity maintenance is augmented by the even greater difficulty of measuring how *well* states meet these needs. Looked at in a slightly different manner, we can measure if a state is doing something, but not if it is doing enough.

STATE POLICY MEASURES

SUBINDEX ONE: GOVERNANCE

A key factor in economic development is the effectiveness, efficiency and fairness of the institutions involved in supporting and regulating economic activity. For the most part this involves how states interact with businesses, and the nuts and bolts of a state's interaction with businesses are in its tax system and regulations. The issue confronting states is not whether to have or not have taxes and regulations, but how taxes and regulations are designed and implemented. Moreover, the effectiveness of a government's economic development effort increasingly depends on how thoughtfully it approaches and evaluates its own initiatives. This year we start to gauge that effectiveness by adding two new measures of economic development governance.

TAX AND FISCAL SYSTEM

While state and local governments commonly use tax abatements and tax incentives to entice out-of-state businesses to relocate, these inducements have relatively little effect on business location decisions. Other factors, such as proximity to markets or quality of life for employees are more important to employers and generally overwhelm whatever short-term advantages may be created by tax differentials. What's more, since most new jobs come from in-state businesses, not from businesses attracted from elsewhere, such abatements and incentives simply increase the tax burden on the very firms that have the most to do with a state's present and future economic health.

But this does not mean that the tax and fiscal system of the state does not affect the economic environment in the state. On the contrary, three aspects of the system are vital.

■ ***Fiscal Stability and Balanced Revenue Sources:*** Although it is impossible to define what the "best" tax and fiscal environment would be for any state,

there are several widely-recognized characteristics we can identify. The first is that the major taxes are balanced, so that no individual tax is unduly burdensome, and so that all taxes taken together help insulate revenues from recession and economic shocks, to the extent possible. The second is that the tax system — when combined with a fiscal system in which prudent controls guard against wide swings in tax levels and the quality of services — is stable enough to permit the state to provide businesses with the assurances they need to make long-term investments.

■ ***Tax Fairness:*** It is occasionally argued that an equitably distributed tax system is antithetical to a good business climate — especially when it comes to a state's ability to lure branch plants and other footloose facilities by using special tax-breaks. But if state and local governments are to be credible, citizens and businesses *already operating in the state* must be convinced that the taxes they pay are fair, that their tax dollars are being wisely invested and are supporting needed public services, and that one individual or company is not benefitting at the expense of another.

■ ***Fiscal Equalization:*** State policies to promote equal fiscal capacity among local governments are essential to a sound business climate. Such policies assure that all communities have an equal ability to provide an adequate level and quality of public service to firms and individuals. Furthermore, they reduce the likelihood that large property tax differentials between nearby communities will influence residential and business location decisions. More importantly, equalizing state fiscal aid can alleviate financial stress and high tax burdens in areas where taxable wealth has dropped and public service needs have risen.

Please see *Appendix D* for a full discussion of these tax and fiscal measures.

REGULATORY REFORM

State regulation is an economic fact of life. Increasingly, and particularly as the overall quality of life in a state becomes a more and more important factor in business location decisions, businesspeople are concerned less about the fact of regulation than about the administration of it. Regulatory reform — not to be confused with regulatory "relief" — has become a significant factor in improving the environment for economic growth. We examine a number of regulatory reform measures, including one-stop permit shops, liability reform, and small business regulatory alternatives.

■ ***One-Stop Permit Shops:*** One-stop permit-offices provide a single point of contact that streamlines permit applications and related business paperwork, with guaranteed review and decision timetables. This is a proxy for a range of regulatory reforms signalling a state's concern for timely business decisions.

■ ***Small Business Regulatory Alternatives:*** The 1980s brought a stronger appreciation of the important contribution small businesses make to a state's economy — and to the particular problems they face in reaching their full potential, given their size. One way states are helping their small businesses grow is by requiring regulatory agencies to consider alternatives to any new proposed rules, alternatives that will accomplish the stated objectives of the law but minimize the economic impact on small businesses.

Liability Reform

The dramatic rise in legal cases and costs, as well as the growing concern about their overall impact on economic competitiveness, have prompted efforts by states to reform the product liability system. Among some of the key reforms states have enacted are:

■ ***Liability Modification:*** The doctrine of joint and several liability is based on the concept that when the negligence of two or more individuals results in injury to a person, the defendants are jointly and individually liable for damages. Abuse within this doctrine, which has shifted liability for compensation to "deep pockets," is symptomatic of what has gone wrong with the current system. The reforms involve either a form of comparative negotiation that allows the plaintiff to recover damages only if the defendant's negligence is greater than that of the plaintiff, or making each defendant liable for his proportional share based on his degree of fault.

■ ***Punitive Damage Limits:*** Punitive damages are those awarded in addition to compensatory damages and designed to punish the

defendants for malicious acts. These damages contribute to the impracticability and size of awards. They become the "wild card" in liability litigation because there is no practical way to control jury members once they decide to punish a defendant for an alleged tort. Reforms have limited punitive damages either through explicit caps or through devised formulas based on figures like the defendants' annual income or profit derived from the tort committed.

■ ***Compensatory Award Reduction:*** Under the collateral source rule, the jury is not permitted to hear evidence regarding compensation that the plaintiff may receive from other sources. A plaintiff may therefore be doubly compensated since various sources of compensation are not considered. Reforms here involve relaxing the collateral source rule to allow the consideration of all sources of funding available for payment of damages.

ECONOMIC DEVELOPMENT GOVERNANCE

The current recession has put state governments in a tough spot. Resources are dwindling for economic development-related efforts at a time when they are needed most. This pressure makes it increasingly important that states approach their development efforts from a strategic perspective, focusing resources where they are most needed, and monitoring program results in order to improve programs and ensure their effectiveness. To capture the states' approaches to economic development governance, we offer two new measures.

■ ***Strategic Plan:*** A strategic plan for economic development, which outlines a state's competitive challenges and details key actions needed, is the first step in ensuring that resources are deployed where they can have the greatest impact. We credit states that have a statewide strategic plan that has been accepted by the governor, has included both public and private sector representatives in its development, and offers some analysis of the state economy along with recommended action steps. Strategic plans from a previous governor are not counted if the new governor has been in office for at least two years.

■ ***Evaluation:*** This measure examines whether a state has conducted an evaluation of at least one of its economic development programs or agencies within the past five years. To qualify as an evaluation, a study must include an analysis of program activity and recommendations for improvements or changes. Evaluations of state JTPA programs are not counted, nor are program audits conducted as part of a zero-based budgeting process.

SUBINDEX TWO: WORKFORCE DEVELOPMENT

Workforce development policies have vaulted to the forefront of America's economic agenda as we have come to recognize that the ability of our nation to compete successfully in world markets depends heavily on the skills and adaptability of our workers.

But the distance we need to travel to meet this critical need for skilled workers appears to grow each and every day. Employers today are already wrestling with shortages of workers with certain skills, ranging from basic math and reading ability to more advanced training — and the best studies estimate this need will only grow in magnitude during the 1990s. There is also a perceived decline in the work-readiness of our school systems' graduates, leading to widespread support for significant reform.

In this Subindex, we explore state activities to support workforce development, both in the workplace and in the schools.

EDUCATION

Education reform continues to sweep across the nation. Each year seems to bring communities a greater understanding that education reform is a keystone to economic development. Progress in this area is slow by its nature, and state commitment to education reform must be diligent and patient.

This section combines a number of individual initiatives under two broad composite measures: Education Support and Education Reform. Neither of these composites is exhaustive; other innovations are being pursued throughout the nation. However, they do indicate a level of effort and can be measured across all states.

Education Support

This composite measures the financial commitment states make to education. It includes:

■ ***Pupil Spending, K-12:*** direct spending per pupil at the elementary and secondary level, adjusted for differences in personal income among states.

■ ***Pupil Spending, Higher Education:*** direct spending at the post-secondary level at public colleges and universities, adjusted for differences in personal income among states.

■ ***Average Teacher Salary:*** the average salary for all K-12 teachers, from newest to most experienced, as a percentage of the average annual pay in the state.

■ ***Beginning Teacher Salary:*** an indirect measure of state commitment to attracting new teachers.

■ ***Change in Teacher Salary:*** salary change during the period in which renewed commitment to education has been a high priority, from the 1980-81 school year to 1989-90.

Education Reform

Education reform initiatives generally fall within three categories: improving school accountability, strengthening teachers, and improving student performance.

School Accountability Policies

■ ***Comprehensive School Performance Indicators:*** examines whether a state has established comprehensive indicators for measuring school performance, including data about student achievement, school resources and instructional conditions.

■ ***School Incentives:*** examines whether a state has established a system of rewards and sanctions tied to school or district performance levels. Treating schools or districts as units and rewarding incremental improvements helps ensure that improvements and rewards visit even the most disadvantaged schools and districts.

Teacher Policies

■ ***Alternative Certification:*** notes whether alternative routes to teacher certification have been established to help alleviate teacher shortages in such key areas as math and science and to bring non-traditionally-trained (but talented) teachers into the profession.

■ ***Teacher Incentives:*** identifies whether bonuses, career ladders, differentiated pay, mentor programs and other incentives exist to reward and retain the best teachers.

■ ***Teacher Induction:*** recognizes programs to support and encourage new teachers.

Student Policies

■ ***Early Childhood Education Programs:*** pre-school programs to improve the school-readiness of children from disadvantaged families.

■ ***High School Math and Science Requirements:*** the number of math and science units required for graduation.

■ ***High School Competency Test Requirement:*** whether states require students to pass a competency test prior to graduation.

WORKER INVESTMENT

State involvement in investing in the skills, productivity and adaptability of its existing workforce is growing. In the past, the federal government played a major role in this area, but current federal policies are inadequate to meet the needs of upgrading our workforce, and states are finding it necessary to fill the breach. We examine a host of state policies to invest in the existing workforce, as well as to help those out of work make the transition into the workforce.

■ ***State Training Programs:*** State job training programs are assuming an increasingly important position in state development strategies, as we shift to a knowledge-based economy and the gap between the skills that workers possess and the skills that jobs demand grows. In this measure, we examine only state-funded (not JTPA-funded) job training programs that either provide customized employer-specific training or support joint public-private programs to retrain or upgrade the skills of current workers or the recently unemployed.

■ ***Workforce Literacy:*** The literacy of the workforce is also a growing issue as firms increasingly find that workers lack the basic reading, writing and computational skills they need to be trained for higher-level skills. Here we credit states that make a systematic effort to involve the private sector in initiatives to pro-

mote workforce literacy. These efforts can include ongoing literacy commissions or task forces, or state-provided funding or incentives for workforce literacy.

■ ***Labor-Management Assistance:*** state programs that provide financial assistance for the creation of area or in-plant labor-management committees that promote workplace flexibility and labor-management cooperation.

■ ***Employee Ownership Assistance:*** programs providing technical assistance, financing assistance and guidance on management and ownership responsibilities to employees interested in taking over a company threatened with closing due to an owner's retirement, the decision of an absentee parent corporation to close a plant (unrelated to the plan's viability), or similar circumstance.

■ ***Transfer Payment Investment:*** Beyond stabilizing incomes and economies, transfer payments — welfare, unemployment compensation, Social Security and Medicaid, for example — can be even more effective contributors to economic development if they are used to encourage and support training, education, re-employment and self-employment. States that develop transfer payment investment (TPI) programs can begin to reduce the fiscal cost of dependency in a state economy, enlarge and improve the workforce, reduce social tension and create the spirit of enterprise and hope that is the backbone of a healthy economy. Here we offer a composite score that reflects a state's use of transfer payments to encourage and support a recipient's transition towards economic self-sufficiency.

Please see *Appendix E* for a full discussion of this transfer payment investment measures.

SUBINDEX THREE: TECHNOLOGY AND INNOVATION

For the small- and medium-sized businesses that increasingly drive our economy, staying competitive means having ready access to new technologies and assistance in applying those technologies. Most large corporations have specific divisions for technology development and application, but most businesses of lesser scale do not. Given the speed of change, the fragmentation of markets and intensifying competition, not just domestically but internationally, businesses lacking the kind of information these resources can provide have little hope for long-term success. In the last decade, states eager to encourage the growth of existing businesses and the birth of new ones have developed mechanisms for providing these vital support services, improving their own economic climates in the process.

State-supported technology programs tend to be of two types, those designed to stimulate applied research for business use, especially in areas the state believes it has a competitive advantage, and those designed to assist in the modernization of existing businesses and the creation of new companies.

STIMULATING RESEARCH

■ ***Research and Development Centers:*** Known as "Centers of Excellence" or "Advanced Technology Centers," and usually affiliated with universities, R&D centers involve a connection with private industry, and focus on specialized technologies. Often they spin off new companies, enhance the competitiveness of existing firms, and may induce a "critical mass" of expertise that becomes an engine of economic growth for an area.

■ ***Research and Development Grants:*** These programs provide grants to colleges and universities, individual faculty members, business/university partnerships, and individual firms — often requiring private matching funds from business — to pursue applied research that likely will serve the state's business needs and economic development goals. These grant programs share two basic characteristics: they award grants for research projects and the selection process is competitive.

■ ***Small Business Innovation Research Grants:*** This credits states that help small business tap into the federal government's requirement that all federal agencies with annual research and development budgets of over $100 million set aside 1.25% of these funds to assist small firms in the development of high technology. Assistance can include: promoting the program to the small business community, providing information and technical assistance to SBIR applicants, providing matching grants to SBIR recipients, and helping firms to obtain funding

from both private and state sources.

MODERNIZING COMPANIES

■ ***Technology Transfer:*** programs that seek to stimulate and speed up the transfer and commercialization of new technology, often product-related, usually from universities and governments to firms. These activities include technology transfer (as opposed to technology development) centers, discrete state funding for projects to transfer technology, and on-line access to technology databases or telecommunications links between firms, universities and government labs that exchange data and other information on technologies.

■ ***Technology Deployment Assistance:*** includes programs that focus specifically on problems that companies face when commercializing a technology into a new product or when adopting process technologies to improve their productivity and quality. These efforts can include helping a firm to evaluate a new technology, test a product, assess operations, upgrade process technologies and solve a technical problem.

■ ***Business Incubators:*** funding for publicly- or privately-established facilities that provide below-market rate office and lab space and shared clerical, reception and computer services for start-up companies, often located in or near advanced technology centers or commercial research parks.

SUBINDEX FOUR: INTERNATIONAL MARKETING

The rise of international competition in virtually every product or service line has forced even small U.S. companies to seek export markets. But financial barriers and lack of essential information make penetrating these markets difficult. State programs to spur international trade fall into two categories:

EXPORT PROMOTION

■ ***Foreign Trade Offices:*** the number of foreign offices run by the state, directly or under contract, to promote export trade.

■ ***Trade Seminars:*** the total number of seminars the state offers to businesses per year that teach a range of skills needed to export — from financing to documentation or licensing — adjusted by the number of firms in the state.

■ ***Export Finance:*** efforts to provide firms pre- or post-export credit or guarantees.

■ ***Trade Staff:*** the number of staff working directly on international trade assistance, adjusted by the number of firms in the state.

■ ***Trade Shows:*** the number of state-sponsored trade shows conducted outside the United States.

■ ***Trade Missions:*** the number of state-sponsored trade missions to foreign countries that include state development staff, corporate leaders and state policymakers.

■ ***Multistate Export Promotion Efforts:*** includes states that are involved in collaborative efforts with other states or Canadian provinces to promote international trade. These efforts can include joint marketing, dialogue and joint trade shows or missions, but must be focused on trade as opposed to tourism development.

EXPORT INFORMATION

■ ***Market Studies:*** overseas market research and industry studies prepared for companies concerning their potential for export development. These studies can be completed by state staff, university researchers or other consultants. Studies completed by federal government staff are not included.

■ ***Language Bank:*** states that make foreign language libraries and translation services available to firms.

■ ***Trade Newsletters:*** a state government publication notifying businesses about recent trade developments and state export services. These must be trade-specific publications, not simply a trade section in a larger agency publication.

■ ***How-to-Export Directory:*** a publication that helps a business understand how to go about the tapping the export market.

■ ***Overseas Agent/Distributor Identification:*** efforts to identify qualified individuals overseas who can match in-state companies with foreign markets.

■ ***Export Product Directories:*** publications that provide informa-

tion about products made by in-state firms that are available for export.

SUBINDEX FIVE: DEVELOPMENT FINANCE

Financial capital is the "grease" that keeps economic machinery turning smoothly. When capital does not flow to its most productive uses, for whatever reason, the machinery slows. Jobs are not created, new technologies are not developed and commercialized, the higher economic returns delivered by new or expanding enterprises do not occur, and the economic health of the state suffers. The more accessible capital is for a wide range of uses, the better the economic climate is for business.

Existing financial institutions — commercial banks, insurance companies, venture capital firms, investment banks and others — do a pretty good job of assuring the availability of capital for large, well-established corporations. But research indicates that these institutions often fail to provide appropriate kinds and amounts of capital to the enterprises that create the majority of new jobs and economic energy in today's economy: new and young businesses, rapidly expanding businesses, businesses in new economic sectors.

The reasons capital may be unavailable for such enterprises are many. An aversion to risk — even when the potential return may be high — renders some capital sources unavailable. The difficulty and cost of acquiring information on new, young or small firms discourages such investments. That's because the cost of putting together deals is about the same regardless of a business's size; thus, it costs less to put together one or two big deals than many smaller ones. Moreover, political, geographic, racial and gender biases do still exist. And regulatory and taxation policies — such as pension fund investment limitations, usury ceilings and the like — may simply prohibit existing institutions from making capital available to some enterprises, regardless of their soundness or future prospects.

To encourage capital markets to work more smoothly and meet development objectives, state governments have crafted a variety of financial innovations. This Subindex examines the types of financing tools made available by new programs, the delivery mechanisms employed and regulatory changes designed to encourage existing financial institutions to meet a broader range of needs.

FINANCING TYPES AND DIVERSITY

At each stage in their life cycle — from the start-up of a brand new business to the retooling of a mature one — businesses need different kinds of capital. When the right kind of capital isn't available at a given stage, it can bring the growth of any business to an abrupt halt. To improve the climate for business growth, many states have developed finance programs specifically designed to fill discovered gaps in the spectrum of private financing sources. This measure identifies state-sponsored capital market intermediaries that help assure that the full range of business capital needs are met.

- ***Seed Capital Funds:*** state investment funds, generally in the form of equity participation, providing very early and, generally, small-amount financing to help entrepreneurs prove the viability of a product or business concept not yet in the production stage.

- ***Venture Capital Funds:*** high-risk, start-up or expansion financing, generally equity or convertible debt, to meet needs not met by private venture capitalists — smaller investments, investments in industries not pursued by venture capitalists, or investments in states where private venture capital is unavailable.

- ***Product Development Finance:*** high-risk financing for new product or production process development, generally provided to mature firms and repayable through royalties tied to product sales. Such financing permits states to encourage innovation and modernization in mature firms without exposing the firm to undue risk.

- ***Long-Term Finance:*** low-risk debt financing for plant (repayable from 10 to 30 years) or equipment (repayable from 5 to 10 years), often provided at fixed rates that offer more predictable interest payments than do the increasingly common variable commercial lending rates. In some cases, states are the only source of such capital at fixed rates for small companies.

■ ***Medium-Risk Intermediate/ Long-Term Finance:*** generally provided on a subordinated or unsecured basis, or secured by "soft" assets such as inventory or accounts receivable.

LEVERAGING INNOVATIONS

While the diversity of state-created business finance programs is important, it is also critical to examine whether states employ innovative delivery mechanisms that offer financing to businesses in the most efficient and effective manner. Finding innovative ways of using limited state resources to leverage significant private resources in the service of public development aims is crucial to addressing the capital needs that exist in most states. So too is ensuring that capital access programs are flexible enough to meet, for example, the different conditions and needs of regions within the state and of very small enterprises commonly ignored by conventional financial institutions. Several innovative delivery systems have been developed to achieve these objectives:

■ ***Leveraged Public Investments:*** direct state investment in private or quasi-public financial institutions specifically designed to channel their resources to investments that meet public aims. Examples include state investments in BIDCOs and BDCs, or in venture capital funds that agree to invest in in-state firms. The state's investment in these institutions is matched or exceeded by private investments.

■ ***Tax Credit Finance:*** the provision of state tax credits, typically staged over several years, to private investors who invest in private or quasi-public institutions that are designed to make investments that achieve state development aims.

■ ***Loan Guarantees:*** covering both state and local industrial revenue bonds and conventional financing, these programs are designed to stimulate private investment by having the state absorb some or all of the financial risk.

■ ***Secondary Market Mechanisms:*** initiatives through which states help banks and financial institutions improve their liquidity and the terms of their business loans by purchasing loans the financial institutions originate (such as SBA-guaranteed loans), often obtaining funds for these purchases by issuing bonds.

■ ***Linked Deposits:*** efforts designed to alter the lending behavior of banks by tying the state's willingness to deposit its resources in the bank to the bank's willingness to provide financing for types of businesses specified by the state. Often state funds are invested at below-market rates in exchange for the bank's agreement to make loans at below-market rates.

■ ***Sub-State Development Finance Support:*** direct investment in, state guarantee of, and/or the creation of secondary markets for the financings made by local and regional development finance institutions that are especially attuned to the opportunities and specialized capital needs of sub-state areas.

REGULATORY INNOVATIONS

Four of the five trillion dollars in the U.S. economy are controlled by financial institutions that are licensed and regulated by government — banks, savings and loans, pension funds and insurance companies, among others. Any policy that makes even a small change in the investment practices of such institutions will have a dramatic effect on the availability of capital to businesses in that economy.

■ ***Pension Fund Investment:*** In-state pension funds — many with billions of dollars in deposits — are often legally restricted from investing in the very communities where the people who contribute to and benefit from the fund live. In some cases, statutory lists specify the types of securities the funds can invest in. To free some of these resources for local investment, many states have eliminated the lists altogether, substituting the "prudent investor" language of the federal Employee Retirement Income Security Act, which governs private pension fund investment practices. Under this language, some fund assets can be invested in qualifying in-state businesses, while still protecting the integrity of the fund. Other states have modified their lists to permit some investments in in-state corporate equities, small businesses, SBA loans, limited partnerships with venture capitalists, and affordable housing. This measure indicates whether in-state public pension funds are invested in-state in venture capital, secondary markets or other such vehicles.

■ ***BDCs and BIDCOs:*** Business Development Corporations (BDCs) are statewide, publicly-chartered, privately-managed corporations, usually capitalized by commercial banks, savings banks or insurance companies. Business and Industrial Development Corporations (BIDCOs) are state-regulated and -chartered, privately managed institutions, also capitalized by private (and, sometimes, public) investors. They differ from BDCs principally in that more than one can be chartered to operate in a state. Both are designed to provide medium- to high-risk debt and equity capital to businesses that are unlikely to get financing from conventional lenders, despite their overall soundness.

■ ***Community Reinvestment Acts:*** Several states have enacted their own versions of the federal Community Reinvestment Act of 1977. These state CRA laws often require banks to demonstrate that they have taken steps to meet the credit needs of local businesses based in the communities where the banks are chartered. CRA laws can also apply whenever banks seek to open or close branches in a community or undergo mergers or acquisitions.

■ ***Interstate Banking Reinvestment Provisions:*** While the acquisition of small in-state banks by larger out-of-state money center and regional banks may increase competition and customer services, some worry that out-of-state banks will be insensitive to local financing needs. Accordingly, some states have enacted legislation requiring out-of-state banks to make explicit commitments to meet community credit needs as a precondition for state approval of the acquisition.

SUBINDEX SIX: LOCAL ECONOMIC DEVELOPMENT ASSISTANCE

When it comes to how the benefits of economic development are distributed, all communities are not created equal. We see this fact of economic life in urban neighborhoods abandoned by the businesses that once supported them, and in rural communities emptied by demographic change. Unlike our more homogeneous competitors, West Germany and Japan, America has long fashioned economic strength from its social diversity. In fact, economic development truly occurs at the local level, when firms choose to invest in a particular facility or community. As a result, the capacities of those communities to undertake economic development activities is increasingly seen as a major concern of state development policy.

A recent National Governors' Association study of growing rural counties — *A Brighter Future for Rural America? Strategies for Communities and States* — lays out the key requirements for successful local economic development efforts, which seem as apt for urban as for rural areas:

". . . growth appears to be the result of sustained, broadly based local economic development activities. The key elements appear to be a long-term, well-organized economic development effort; a pro-growth attitude expressed by a willingness to invest energy and take risks to help businesses; practical assistance to firms in the form of financing, industrial sites and infrastructure; strong partnerships between business leaders and elected officials; an individual (sparkplug) to keep local efforts going; and technical and financial support from state and federal agencies."

In this Subindex, we measure the efforts state governments use to support the process of local economic development. We examine whether states undertake four types of support efforts — general economic development planning, regional economic cooperation, project feasibility assessment and program development, and organization capacity building. We only give states credit for these efforts if they formally assign staff or dedicate state funding to these activities.

■ ***Community Planning:*** This type of planning usually involves a broad assessment of economic conditions and trends, an inventory of the extent and nature of the area's economic resources, and the identification of a range of public and private sector actions that can be taken to support economic activity and meet employment needs. Also included in this measure are "prepared communities" programs, also called "certified cities" or "community betterment" programs. These initiatives are usually targeted at communities with less than 50,000 residents. They involve the use of technical assistance staff to train community teams to assess com-

munity needs and resources, and draw up and implement plans to improve economic development capacity and address specific development problems and opportunities.

■ ***Regional Development Planning:*** A second variation on technical assistance for general economic development planning is technical assistance or funding programs for regionally-based planning. While most economic development planning is carried out within a single political jurisdiction (that is, a county or municipality), there is a growing recognition that because economic activity tends to be regional in nature, economic development efforts must also be regionally-based. With workers frequently crossing jurisdictional boundaries between home and work, and with key economic development resources such as transportation facilities and post-secondary educational facilities serving multi-jurisdictional areas, communities within a region can heighten the effectiveness of economic development efforts through regional coordination. A small number of states have created regional economic strategy programs that fund the development of regional plans. In some cases, states make funding for specific economic development projects contingent on consistency with a regional plan.

■ ***Project Feasibility or Program Development:*** While general development planning can provide communities with strategic direction, more targeted planning efforts are often needed to implement specific strategies. Some technical assistance programs provide funding or staff assistance to examine the feasibility of a specific development project or to help in the design of new programs.

■ ***Organization Capacity Building:*** Organization capacity building occurs in two forms: support for general organization development, and the provision of information and training. Technical assistance for general organization development can be useful when an economic development organization is just getting started and needs initial operating resources and/or guidance on basic organization design, as well as staff training. Technical assistance programs can also be used to help organizations develop and implement organizational plans (legal structure, funding sources, staffing needs, and so forth). Technical assistance in the form of information and training can provide a basic orientation to economic development concepts and techniques for new organizations, as well as help established organizations sharpen their skills and develop new activities. They also can include sponsorship of economic development training workshops, preparation and distribution of handbooks and other publications, and provision of economic, industry and market data.

SUBINDEX SEVEN: INFRASTRUCTURE AND AMENITIES

With the possible exception of public education, nothing demonstrates more clearly the interdependence of business and government as the public responsibility to build and maintain physical infrastructure and protect quality of life amenities. Of the two, physical infrastructure — roads, bridges and other publicly-constructed facilities — is the most widely understood. But the concept of "amenities" has taken on a decidedly economic meaning as well. In more and more companies, employees are the most valuable resource, and attracting and retaining them can be the key factor in a business's long-term success. Consequently, business and economic development officials have taken a new and much broader interest in what determines the amenity or "quality of life" level in a state.

To begin to measure the extent to which each state is working to address these issues, we examine whether the state maintains adequate public capital budgeting practices through which major infrastructure improvements are built and maintained, offers state-assisted programs to make housing affordable to all, is taking steps to safeguard the environment, and is acting to protect the use of its land.

PUBLIC CAPITAL BUDGETING

While the existence of formal capital budgeting practices does not insure against the age-old habit of cutting repair and maintenance investments every time there is a budget crunch, it does suggest how seriously a state takes the challenge of maintaining

the roads, bridges, water and wastewater systems, solid waste sites, dams and prisons that form a part of the quality of life picture. In this composite measure, we examine:

■ ***Facility Inventory:*** whether states maintain a central unified inventory of public facilities.

■ ***Needs Assessments:*** whether states provide regular assessments of facility conditions and investment needs.

■ ***Capital Plans:*** whether states develop long-range capital plans to guide annual capital budget requests.

HOUSING

The plight of the homeless, estimated at between one and three million individuals, of whom perhaps 30 percent are members of families with children, is only the most starkly visible evidence of a dramatic decline in the availability of affordable housing in America. Between 1980 and 1990, the U.S. Department of Housing and Urban Development's budget authority for housing was cut by 80 percent. Cuts were deepest in support for construction of federally-subsidized rental units: new starts plummeted from 129,400 in 1980 to only 16,000 in 1990. In addition, federal restrictions on state-issued tax-free bonds have made it difficult for states to make up for lost federal support.

As federal support has dropped, housing costs have risen. The average price of a new home has risen much faster than average incomes, locking many out of home ownership. At the same time, the cost of rental housing has risen sharply; gross rents rose 18 percent between 1974 and 1985, while the median income of renters *fell* 12 percent. The result of these trends is overcrowding, deteriorating housing stock and increasing homelessness.

States are struggling to pick up the slack left by the withdrawal of the federal government. From 1980 to 1987, the number of state housing programs more than tripled. State efforts fall into three categories: increasing affordable housing, providing direct assistance to residents, and meeting the needs of special groups.

Affordability

■ ***New Construction Assistance:*** subsidized low-interest loans to for-profit and non-profit developers, deferred payment loans, and interest-free loans and grants for new multiple-unit rental housing.

■ ***Rehabilitation Assistance:*** low- or no-interest loans in exchange for equity or resale control until the loan is repaid, remortgaging assistance or forgivable loans, re-use of idle buildings, and mixed-use development, among other techniques.

■ ***Pre-Development and Development Cost Assistance:*** grants and subsidized loans to cover the costs of planning, feasibility studies, architect and engineer fees, land acquisition and closing fees; and revolving loans, loan guarantees, and short-term loans to leverage long-term financing for development.

Direct Assistance

■ ***Home Ownership:*** state efforts to assist first-time homeowners, including low-interest or interest-free first and second mortgages and loans for downpayment, lease/purchase arrangements, land grants and property tax abatements in disadvantaged neighborhoods, interest-free second mortgages repayable only if resale occurs within a stated period (to discourage speculation), shared equity financing with proportional distributions upon resale, and others.

■ ***Tenant Assistance:*** including temporary emergency rent payments, rent guarantees, rent subsidies, loan guarantees, energy cost assistance and other programs that forestall homelessness for the most needy.

Special Housing Needs

■ ***Homeless:*** programs to prevent homelessness (grants to pay back rent, future rent, and security deposits, as well as loans with deferred payments set to a percentage of income), and to finance construction of homeless shelters (shelter development grants, low- and no-interest loans, and revolving loan construction/rehabilitation funds).

■ ***Elderly:*** low-cost financing for housing for the elderly, rent subsidies, low-interest mortgages, reverse-equity mortgages for "house-rich, cash-poor" elderly, home energy assistance and repairs, and other home services to support independent living.

■ ***Housing Trust Funds:*** established by states to address the special needs of a wide variety of groups and funded through a dedicated fee from real estate transfer taxes, oil overcharge fee windfalls, or lump-sum or annual general fund commitments.

ENVIRONMENT

It is increasingly clear that the quality of a state's environment has an important effect on its perceived economic climate. The reasons are several.

First, the real economic costs of wandering garbage barges, medical waste washing up on beaches, oil spills, automobile emissions in dense metropolitan areas, trains laden with radioactive waste languishing on rail sidings with no place to go — and the like — are mounting and are borne increasingly by state and local governments.

Second, the health effects of local environmental problems, from air quality warnings to drinking water purity, are having measurable effects in some areas on workforce health and productivity.

Third, as employers trying to recruit scarce workers know only too well, people are making career decisions in part on the basis of perceived amenity levels in the communities where work is offered. Thus, how states respond to these challenges determines, in part, the attractiveness of their economic climate.

Our environment section examines environmental policy initiatives in three categories, solid waste management, hazardous waste management, and air and water pollution control.

Solid Waste Management

■ ***Bottle Bills:*** laws requiring deposits on glass, aluminum and plastic beverage containers, redeemable from retailers upon return.

■ ***Mandatory Recycling:*** credits either curbside separation of paper, glass and metals, or an established recycling percentage for waste stream components.

■ ***Government Procurement of Recycled Products:*** includes laws that promote the purchase of recycled paper and other products by means of government set-aside contracts or price preferences favoring products that incorporate recycled materials.

Hazardous Waste Management

■ ***Pollution Prevention:*** credits states that have enacted legislation aimed at pollution prevention. This legislation typically provides technical assistance, grants or research, or requires facility plans, aimed at source reduction or the prevention of pollution. The legislation seeks to encourage users of toxic or hazardous materials to adopt input, process, or product changes and/or adopt in-house recycling programs.

■ ***Waste Minimization:*** credits states with programs that offer technical and/or financial assistance for research and implementation of pre-disposal treatment, reduced waste production, and waste component recycling or inter-industry exchanges, as well as other hazardous waste minimization programs.

■ ***Property Transfer Law:*** credits states that require property owners to prove the absence of hazardous materials on their property prior to ownership transfer.

■ ***State Superfunds:*** credits states that are actively using their enforcement authority and hazardous waste site cleanup funds, and fining responsible parties for site remediation.

Air and Water Pollution Control

■ ***Air Permits and Emissions Fees:*** To strengthen their air pollution-control programs and augment inadequate public abatement funds, several states have expanded their permitting programs to establish emissions fees. We count only those states that have both enacted such programs *and* collected fees.

■ ***Indoor Air Pollution Control:*** The quality of indoor pollution control programs is determined by the range of locations subject to restrictions, such as smoking prohibitions. We credit states that restrict smoking in public places, public workplaces *and* private workplaces.

■ ***Groundwater Protection:*** We recognize states with established numeric standards for specific groundwater contaminants.

LAND-USE PROTECTION

Farmland Protection

In much of our country, towns were first founded in areas where the farmland was the best. Where those towns have prospered and become cities, their original main

asset — prime farmland — is under heavy urban and suburban development pressure. The problem is important both because we need to assure a sustainable supply of reasonably-priced food, and because farmland has important open space value — a respite from concrete, steel and glass. This measure is a composite of the extent to which states have enacted any of several farmland protection initiatives. (We don't include preferential/differential taxation for agriculture because it now exists in every state.)

■ ***Right-to-Farm Laws:*** laws that protect farmers and ranchers from certain legal actions against normally accepted farm practices.

■ ***Development Rights — Purchase:*** states that may purchase the development rights of farmland by paying the owner the difference between the market value and farm-use value of the land.

■ ***Development Rights — Transfer:*** rights that allow qualifying developers to increase development density in designated receiving areas, if they purchase development rights from farmers whose property is in other designated sending areas. This serves to protect the use of land for farming and keeps farmers from being forced off their land.

■ ***Agriculture District Ordinances:*** allow farmers to organize land into legally recognized geographic areas restricted to agricultural use.

Land-Use Management

While most land-use decisions are the domain of local governments, in recent years some states have realized the importance of preserving certain types of land. In addition, several rapidly-growing states are recognizing the problems that can emerge if the development of adequate infrastructure does not accompany the development of land for industrial, commercial or residential use. Here we measure the steps that states have taken to address the development of land.

■ ***Growth Management:*** credits states that have enacted legislation that gives state and regional governments authority over certain local land-use decisions, so as to address the long-term effects of growth on quality of life issues.

■ ***Wetlands Protection:*** states that have enacted legislation that regulates activities in coastal or freshwater wetlands.

State Policy Data

GOVERNANCE

TAX AND FISCAL SYSTEM*

	Stability/ Balance		Tax Fairness		Fiscal Equalization		Final Score	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Alabama	67.1	23	18.1	46	62.26	17	147.5	36
Alaska	28.5	46	36.0	39	80.65	1	145.2	38
Arizona	52.3	32	77.4	4	46.31	34	176.0	24
Arkansas	65.2	25	45.9	27	62.88	16	174.0	25
California	94.3	6	78.5	3	68.05	13	240.9	1
Colorado	80.3	17	60.7	17	36.79	45	177.8	23
Connecticut	40.1	43	64.5	15	41.02	42	145.6	37
Delaware	57.5	30	60.1	19	79.89	2	197.5	9
Florida	46.6	39	23.5	45	56.89	22	127.0	46
Georgia	85.0	11	31.4	42	52.16	27	168.6	30
Hawaii	49.4	34	59.8	20	79.16	3	188.3	19
Idaho	96.4	1	52.3	24	58.77	21	207.5	5
Illinois	55.1	31	39.2	34	41.13	41	135.4	40
Indiana	98.1	2	38.3	35	58.89	20	195.3	12
Iowa	64.8	27	60.7	18	46.08	35	171.6	29
Kansas	64.9	26	66.0	12	41.79	40	172.7	27
Kentucky	80.9	16	27.5	44	70.41	6	178.8	22
Louisiana	29.1	45	40.5	31	59.13	19	128.7	45
Maine	81.6	13	78.6	2	49.89	28	210.1	4
Maryland	66.5	24	75.6	6	48.43	30	190.5	16
Massachusetts	70.2	21	60.7	16	66.09	14	197.0	10
Michigan	74.8	20	65.6	13	47.38	32	187.8	20
Minnesota	97.8	3	74.0	7	56.74	23	228.5	2
Mississippi	61.8	28	40.8	30	69.21	11	171.8	28
Missouri	81.3	15	35.5	40	43.96	38	160.8	53
Montana	24.4	48	72.2	10	37.38	44	134.0	44
Nebraska	46.9	36	55.6	23	28.45	49	130.9	43
Nevada	46.7	38	37.5	36	71.57	5	155.7	31
New Hampshire	23.5	49	34.5	41	36.15	46	94.2	48
New Jersey	47.4	35	58.9	21	46.01	36	152.3	35
New Mexico	35.5	44	50.8	25	79.15	4	165.4	31
New York	86.0	10	72.5	9	46.71	33	205.2	7
North Carolina	90.7	8	37.4	37	70.14	7	198.2	8
North Dakota	81.3	14	65.2	14	66.00	15	212.5	3
Ohio	94.0	7	58.1	22	43.79	39	195.9	11
Oklahoma	94.1	5	39.2	33	55.00	25	188.6	18
Oregon	25.0	47	77.3	5	30.78	47	133.1	42
Pennsylvania	86.8	9	50.1	26	52.75	26	189.9	17
Rhode Island	69.5	22	73.1	8	48.39	31	190.9	15
South Carolina	98.8	1	40.8	29	55.11	24	195.0	13
South Dakota	19.2	50	14.0	47	26.98	50	60.2	50
Tennessee	42.8	40	42.5	29	29.84	48	85.1	49
Texas	42.7	41	42.5	50	44.08	37	99.3	47
Utah	85.0	12	36.9	38	69.15	9	191.1	14
Vermont	51.3	33	94.7	1	38.55	43	184.6	21
Virginia	76.3	19	39.5	32	49.35	29	165.1	32
Washington	46.7	37	13.5	48	69.44	10	129.6	44
West Virginia	59.7	29	13.8	28	69.80	8	173.1	26
Wisconsin	76.1	18	70.9	11	59.82	18	207.2	6
Wyoming	12.3	42	28.0	13	68.07	12	138.1	39

REGULATORY REFORM

	One Stop Permits	Small Bus Reg. Alt.	Liability Reform: Liability Modificat	Liability Reform: Punitive Limits	Liability Reform: Comp Award Reduction
Alabama	■		■	■	■
Alaska			■	■	■
Arizona	■	■	■	■	
Arkansas	■				
California	■	■	■	■	
Colorado	■	■	■	■	■
Connecticut	■	■	■		■
Delaware	■				
Florida		■	■	■	■
Georgia			■	■	■
Hawaii	■		■		■
Idaho			■	■	■
Illinois	■	■	■	■	■
Indiana	■	■	■		■
Iowa	■	■	■	■	■
Kansas	■		■	■	
Kentucky	■	■	■	■	■
Louisiana			■		
Maine	■				■
Maryland					
Massachusetts					
Michigan	■	■	■		■
Minnesota	■	■	■	■	■
Mississippi	■		■		
Missouri	■		■	■	■
Montana	■		■	■	■
Nebraska	■			■	
Nevada			■	■	
New Hampshire		■	■	■	
New Jersey	■	■	■	■	■
New Mexico	■		■		
New York	■	■	■		■
North Carolina	■				
North Dakota			■	■	■
Ohio	■		■	■	■
Oklahoma			■	■	
Oregon	■		■	■	■
Pennsylvania	■	■			
Rhode Island	■	■			
South Carolina	■			■	
South Dakota	■		■	■	
Tennessee					
Texas	■	■	■	■	
Utah	■		■	■	
Vermont	■	■	■		
Virginia	■			■	
Washington	■	■	■		
West Virginia	■				
Wisconsin	■	■			
Wyoming	■		■		

Please refer to *State Policy Data Sources* and *State Policy Index* text for further detail on individual measures.

* See *Appendix D* for more information on these measures.

GOVERNANCE

ECON. DEVELOPMT.

Strategic Plan	Evaluation
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WORKFORCE DEVELOPMENT

EDUCATION

Education Support

Pupil S. K-12		Pupil S. Higher		Average Salary		Beginning Salary		Salary Change		
%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	
22.7	46	35	7	130	43	99	14	67.7	35	Alabama
36.1	3	44	1	145	14	100	9	48.4	47	Alaska
26.1	34	21	32	141	25	101	6	70.9	31	Arizona
22.1	48	32	9	129	45	96	19	69.3	34	Arkansas
21.3	49	22	28	151	5	91	33	81.5	17	California
28.1	19	19	39	140	28	101	37	71.7	28	Colorado
31.8	13	16	44	148	9	86	41	134.2	1	Connecticut
30.5	16	19	39	143	19	86	41	83.3	13	Delaware
26.8	30	24	20	143	19	108	2	86.9	9	Florida
27.3	26	27	14	133	40	90	34	81.4	18	Georgia
23.5	43	39	3	149	8	108	2	52.5	45	Hawaii
22.8	45	29	12	131	42	89	35	57.9	40	Idaho
25.7	37	16	44	136	34	81	47	69.5	33	Illinois
26.6	31	22	28	148	9	95	22	79.5	21	Indiana
31.0	15	23	22	145	14	104	4	65.8	38	Iowa
27.1	25	21	32	140	28	99	14	78.5	23	Kansas
28.1	19	30	11	138	32	92	29	66.8	36	Kentucky
27.2	27	25	18	123	47	81	44	46.8	48	Louisiana
32.0	12	27	14	140	28	86	41	92.1	6	Maine
27.8	22	20	35	155	3	94	25	92.0	7	Maryland
27.6	23	12	48	135	37	80	49	82.7	14	Massachusetts
28.2	18	20	35	147	12	87	39	71.7	28	Michigan
27.5	24	26	16	145	14	95	22	81.1	19	Minnesota
25.7	37	36	5	143	19	110	1	87.2	8	Mississippi
24.7	40	17	43	130	43	95	22	76.6	24	Missouri
32.7	8	26	16	146	13	107	5	57.2	41	Montana
25.8	35	22	28	144	17	100	9	71.5	30	Nebraska
22.1	47	23	22	143	19	94	25	72.8	27	Nevada
23.0	44	8	50	134	39	89	35	116.1	3	New Hampshire
34.3	6	23	22	133	40	84	44	95.5	5	New Jersey
32.2	11	36	5	136	34	101	6	50.5	46	New Mexico
37.7	2	19	39	143	19	92	29	82.5	15	New York
27.0	28	34	8	144	17	99	14	75.4	25	North Carolina
29.5	17	25	18	136	34	94	25	66.0	37	North Dakota
26.6	31	19	39	139	31	81	47	86.8	20	Ohio
23.8	42	23	22	123	47	87	39	65.2	39	Oklahoma
31.4	14	20	35	152	4	98	19	70.9	31	Oregon
31.4	5	16	44	150	7	96	19	86.9	9	Pennsylvania
35.1	4	13	47	171	1	93	28	82.1	16	Rhode Island
26.9	29	38	4	142	24	101	6	85.6	11	South Carolina
27.9	21	21	32	135	37	100	9	55.8	42	South Dakota
24.1	41	28	13	137	33	100	9	78.9	22	Tennessee
25.8	35	24	20	126	46	92	29	74.2	26	Texas
21.0	50	23	22	122	49	83	46	40.3	50	Utah
32.5	9	12	48	148	9	92	29	121.8	2	Vermont
26.5	33	23	22	141	25	97	18	99.1	4	Virginia
25.7	37	22	28	141	25	88	37	43.3	49	Washington
33.0	7	32	9	115	50	80	49	52.8	44	West Virginia
32.5	9	20	35	161	2	99	14	85.2	12	Wisconsin
39.5	1	41	2	151	5	100	9	54.9	43	Wyoming

POLICY

State Policy Data

WORKFORCE DEVELOPMENT

EDUCATION

Education Reform

	Accountability		Teacher Policies			Student Policies			WORKER INVEST.	
	Perform. Indicators	School Incentives	Altern. Certif.	Teacher Incents.	Teacher Induction	Preschool Programs	Sci./Math Reqs. Units	H.S. Comp. Test	Training Programs	Workforce Literacy
Alabama	■		■	■	■		4	■	■	
Alaska		■	■				1		■	
Arizona			■				4			
Arkansas	■	■	■				3	■	■	■
California	■	■	■	■	■	■	4	■	■	■
Colorado	■		■			■	0		■	
Connecticut	■	■	■	■	■		3		■	■
Delaware	■		■		■		1		■	
Florida	■	■	■	■	■	■	6	■	■	
Georgia	■	■	■				1	■	■	■
Hawaii	■	■	■		■		4	■	■	■
Idaho			■	■	■		1		■	■
Illinois	■					■	3		■	
Indiana	■	■		■	■	■	1		■	■
Iowa	■	■		■	■	■	0		■	
Kansas	■				■		1		■	
Kentucky	■	■	■	■	■		3		■	■
Louisiana		■	■		■	■	6	■	■	
Maine	■	■		■	■	■	4		■	
Maryland			■			■	3	■	■	■
Massachusetts		■	■	■		■	0		■	■
Michigan		■				■	0		■	■
Minnesota			■		■	■	1		■	■
Mississippi	■	■	■		■		1		■	■
Missouri	■		■	■	■	■	4		■	
Montana		■	■				3			
Nebraska			■				0	■	■	
Nevada	■	■				■	1	■	■	■
New Hampshire	■		■				4			
New Jersey	■	■	■	■		■	3	■	■	
New Mexico	■		■		■		7		■	
New York	■	■		■	■		1	■	■	■
North Carolina	■	■	■	■	■		4	■	■	
North Dakota							1			
Ohio	■	■	■	■		■	3	■	■	
Oklahoma	■	■	■	■	■	■	1		■	
Oregon	■				■	■	4	■	■	
Pennsylvania	■	■	■	■	■		6		■	■
Rhode Island	■				■	■	4		■	■
South Carolina	■	■	■	■	■	■	3		■	■
South Dakota		■			■		4			
Tennessee	■	■		■	■		1	■	■	
Texas	■	■	■	■	■	■	5	■	■	
Utah	■			■	■		1		■	
Vermont	■		■			■	10		■	
Virginia		■	■		■		1		■	■
Washington	■	■		■	■	■	4		■	
West Virginia	■	■	■				1		■	
Wisconsin						■	4		■	■
Wyoming	■		■				8			

Please refer to *State Policy Data Sources* and *State Policy Index* text for further detail on individual measures.

WORKFORCE DEVELOPMENT				TECHNOLOGY AND INNOVATION						
WORKER INVESTMENT				RESEARCH			MODERNIZATION			
Lab./Mgmt. Assist.	Employ. Ownship.	Transfer Pymnt.* Investment Score	Transfer Pymnt.* Investment Rank	R&D Centers	R&D Grants	SBIR Grants	Tech. Transfer	Tech. Deploy.	Busns. Incubtrs.	
	■	250	50		■	■	■	■	■	Alabama
		201	25		■					Alaska
		183	14	■						Arizona
		193	19	■	■		■	■	■	Arkansas
	■	105	4		■		■			California
		228	30	■	■		■		■	Colorado
	■	168	10		■	■		■	■	Connecticut
	■	185	15		■	■			■	Delaware
		193	19		■		■	■		Florida
		240	36	■				■	■	Georgia
	■	205	27	■		■	■		■	Hawaii
		226	39					■	■	Idaho
■	■	188	16		■		■	■	■	Illinois
		231	43	■	■	■	■	■	■	Indiana
■		165	8	■	■	■	■	■	■	Iowa
		170	12	■	■	■	■	■		Kansas
■		240	46	■		■	■	■		Kentucky
		196	22					■	■	Louisiana
		209	29	■	■			■		Maine
■	■	134	5	■	■		■	■	■	Maryland
	■	73	2	■	■		■	■	■	Massachusetts
■	■	158	6	■	■	■	■	■	■	Michigan
■		159	7	■	■		■	■		Minnesota
		200	24	■			■	■	■	Mississippi
		188	16	■	■		■	■	■	Missouri
	■	214	33	■	■		■	■	■	Montana
		220	34		■			■		Nebraska
		188	16							Nevada
	■	224	37						■	New Hampshire
	■	234	41	■	■	■	■		■	New Jersey
		230	42	■	■		■	■		New Mexico
■	■	168	10	■	■	■	■	■	■	New York
		193	19	■	■		■	■	■	North Carolina
		204	26	■		■	■	■		North Dakota
■	■	228	30	■	■	■	■	■	■	Ohio
		220	34	■	■	■	■		■	Oklahoma
	■	165	8	■	■		■			Oregon
■	■	220	34		■		■	■	■	Pennsylvania
		211	31		■	■	■			Rhode Island
		243	48					■		South Carolina
		212	32		■		■			South Dakota
■		247	49	■			■	■		Tennessee
		198	23	■	■	■	■	■	■	Texas
		210	30	■						Utah
		104	3						■	Vermont
		234	41	■	■		■	■	■	Virginia
	■	65	1	■			■	■		Washington
■	■	177	13					■		West Virginia
■	■	205	27	■	■	■			■	Wisconsin
		225	38		■					Wyoming

* See *Appendix E* for more information on this measure.

State Policy Data

INTERNATIONAL MARKETING

EXPORT PROMOTION

	Foreign Offices #	Trade Sems. per 10M cos. #	Trade Sems. per 10M cos. Rank	Export Finance	Trade Staff per 10M cos. #	Trade Staff per 10M cos. Rank	Trade Shows #	Trade Shows Rank	Trade Missions #	Multistate Efforts
Alabama	3	0.86	41		1.11	35	3	30	0	■
Alaska	3	18.52	1		17.11	1	1	21	16	■
Arizona	1	1.40	31		0.89	41	5	21	2	■
Arkansas	3	1.31	32	■	2.19	19	1	47	2	■
California	5	0.99	39	■	0.92	39	25	1	3	■
Colorado	3	12.31	2		1.33	30	10	7	2	■
Connecticut	2	2.64	20		1.96	36	8	12	1	■
Delaware	3	2.34	23		3.57	4	3	30	2	■
Florida	2	3.84	12		1.50	29	10	7	8	
Georgia	5	0.28	50		1.32	31	4	14	2	
Hawaii	2	0.81	44		4.44	3	4	24	2	■
Idaho	2	4.82	8		2.41	17	5	21	2	■
Illinois	10	4.22	9	■	5.49	18	20	2	2	■
Indiana	6	2.07	26	■	2.07	21	3	30	3	■
Iowa	3	4.10	11		1.92	23	12	4	3	■
Kansas	2	1.22	34	■	2.71	13	4	24	1	■
Kentucky	4	0.69	46		1.25	33	3	30	4	■
Louisiana	3	1.07	37		2.25	18	5	21	1	■
Maine	0	4.19	10		0.90	40	3	30	1	■
Maryland	6	2.32	24	■	1.81	26	6	17	3	
Massachusetts	0	0.75	45		0.44	48	0	50	0	■
Michigan	6	0.85	42	■	3.21	7	20	2	10	■
Minnesota	8	8.33	5	■	3.19	8	6	17	2	■
Mississippi	3	0.97	40		2.92	11	3	30	5	■
Missouri	4	2.50	22		1.90	24	11	6	10	■
Montana	2	3.70	13		2.47	16	3	30	2	■
Nebraska	0	2.54	21		0.51	46	7	47	1	■
Nevada	3	3.42	15		3.04	10	2	40	1	■
New Hampshire	0	1.76	28		0.38	50	2	40	2	■
New Jersey	1	1.51	29	■	1.02	37	10	7	5	
New Mexico	0	3.32	16		0.45	47	2	40	6	■
New York	6	9.77	4	■	0.87	42	10	7	2	■
North Carolina	4	0.44	48		1.31	32	7	13	1	
North Dakota	1	1.01	38		1.52	28	2	40	2	■
Ohio	5	1.09	36		2.09	20	4	24	2	■
Oklahoma	1	3.62	14		2.75	12	3	30	1	
Oregon	3	3.12	18		3.26	6	7	13	2	■
Pennsylvania	3	0.35	49		0.69	44	7	13	0	■
Rhode Island	3	7.88	6		2.57	15	2	40	0	■
South Carolina	2	9.83	43	■	1.12	34	2	40	3	■
South Dakota	0	1.42	30		1.90	24	2	40	2	■
Tennessee	6	0.64	47		0.43	49	6	17	2	■
Texas	6	2.04	27	■	0.66	45	12	4	1	
Utah	1	3.30	17		3.57	4	6	17	3	■
Vermont	0	10.47	3		0.79	43	4	24	3	■
Virginia	2	2.18	25		1.53	27	3	30	1	■
Washington	2	1.26	33	■	2.02	22	7	13	0	■
West Virginia	1	1.10	35		0.96	38	1	47	0	
Wisconsin	4	2.95	19	■	3.05	9	10	7	2	■
Wyoming	1	6.76	7		1.73	2	3	30	1	■

EXPORT INFO.

	Market Studies	Lang. Bank	Trade Nwsltr.
Alabama	■	■	
Alaska	■	■	■
Arizona	■		
Arkansas		■	■
California	■	■	■
Colorado	■	■	■
Connecticut			■
Delaware	■		■
Florida	■		
Georgia	■		■
Hawaii			■
Idaho	■	■	■
Illinois			
Indiana	■	■	■
Iowa	■	■	■
Kansas	■	■	■
Kentucky	■		■
Louisiana	■		■
Maine	■		■
Maryland	■		■
Massachusetts	■		■
Michigan	■		■
Minnesota	■		■
Mississippi	■		
Missouri	■		■
Montana	■		
Nebraska		■	
Nevada	■		■
New Hampshire	■		
New Jersey	■		■
New Mexico	■		
New York	■		
North Carolina	■	■	■
North Dakota	■	■	
Ohio	■	■	■
Oklahoma	■	■	■
Oregon	■		
Pennsylvania	■		■
Rhode Island	■		■
South Carolina	■	■	■
South Dakota	■	■	
Tennessee	■		■
Texas			
Utah	■	■	■
Vermont		■	
Virginia	■		■
Washington		■	■
West Virginia	■	■	
Wisconsin	■		■
Wyoming	■		■

Please refer to *State Policy Data Sources* and *State Policy Index* text for further detail on individual measures.

INT'L. MKTNG.			DEVELOPMENT FINANCE					
EXPORT INFORMATION			FINANCING TYPES AND DIVERSITY					
How-To Directs.	Agency/ Dist. ID	Export Directs.	Seed Capital	Venture Capital	Product Develmnt.	Long-Term Finance	Med. Risk Finance	
	■	■				■		Alabama
	■			■	■	■		Alaska
	■	■				■	■	Arizona
■		■	■			■	■	Arkansas
	■	■				■	■	California
	■			■		■	■	Colorado
	■	■	■	■	■	■	■	Connecticut
■	■	■				■	■	Delaware
	■		■			■		Florida
	■	■				■		Georgia
	■	■	■	■	■	■	■	Hawaii
■	■	■						Idaho
■	■		■	■	■	■	■	Illinois
■	■		■	■	■	■	■	Indiana
■	■	■	■	■	■	■	■	Iowa
■	■	■	■	■		■		Kansas
■	■	■		■		■	■	Kentucky
	■		■	■	■	■	■	Louisiana
■	■			■		■	■	Maine
■	■	■	■	■		■	■	Maryland
■	■	■		■	■	■	■	Massachusetts
■		■	■		■	■	■	Michigan
■	■	■	■	■	■	■	■	Minnesota
■	■	■	■	■		■	■	Mississippi
■	■	■	■			■	■	Missouri
■			■	■		■	■	Montana
■		■	■	■		■	■	Nebraska
	■	■				■	■	Nevada
		■				■		New Hampshire
■		■				■	■	New Jersey
■	■	■		■	■	■	■	New Mexico
	■			■		■	■	New York
	■				■	■	■	North Carolina
■	■		■	■		■	■	North Dakota
■	■		■		■	■		Ohio
	■		■	■	■	■	■	Oklahoma
■	■	■	■			■		Oregon
	■		■	■	■	■	■	Pennsylvania
■	■				■	■	■	Rhode Island
■	■	■		■		■	■	South Carolina
	■	■			■	■		South Dakota
■	■	■	■				■	Tennessee
■					■	■		Texas
	■	■			■			Utah
	■			■		■	■	Vermont
■	■	■				■		Virginia
■						■	■	Washington
		■		■		■	■	West Virginia
■	■	■	■	■		■	■	Wisconsin
■	■	■		■		■	■	Wyoming

State Policy Data

DEVELOPMENT FINANCE

LEVERAGING INNOVATIONS

REGULATORY INNOVATIONS

	Leveraged Investments	Tax Credit Finance	Loan Guarantees	Secondary Market	Linked Deposits	Sub-State Support	Pension Investments	BIDCs/ BHDCOs	CRA Laws	Banking Reinvest.
Alabama					■	■				
Alaska	■		■	■						
Arizona	■									
Arkansas	■		■				■	■		■
California			■			■		■		
Colorado				■			■	■		
Connecticut	■		■				■		■	■
Delaware			■					■		
Florida	■									
Georgia								■		
Hawaii										
Idaho								■		■
Illinois	■				■					■
Indiana	■	■	■			■		■		■
Iowa	■	■	■		■	■	■	■	■	■
Kansas	■	■	■			■	■	■		
Kentucky		■								
Louisiana	■	■	■		■	■				■
Maine		■	■	■	■					■
Maryland	■		■		■			■	■	■
Massachusetts	■	■	■				■	■	■	■
Michigan	■	■	■			■	■	■	■	■
Minnesota	■		■	■		■				■
Mississippi		■	■			■				
Missouri		■	■		■		■	■	■	
Montana		■	■	■	■			■		
Nebraska			■		—			■		■
Nevada										■
New Hampshire			■					■		■
New Jersey			■							
New Mexico	■							■		
New York		■	■			■	■	■	■	■
North Carolina										
North Dakota		■	■	■			■	■		
Ohio			■		■	■	■		■	■
Oklahoma	■	■	■	■	■			■		■
Oregon			■				■	■		
Pennsylvania	■		■		■	■	■			■
Rhode Island		■	■				■	■	■	
South Carolina		■						■		
South Dakota			■			■	■			■
Tennessee	■					■		■		
Texas			■		■		■			
Utah	■						■		■	■
Vermont		■	■			■	■			■
Virginia			■							■
Washington									■	
West Virginia		■	■		■	■			■	■
Wisconsin		■		■	■		■	■		■
Wyoming	■		■	■	■	■		■		■

Please refer to *State Policy Data Sources* and *State Policy Index* text for further detail on individual measures.

LOCAL ECON. DEV. ASSISTANCE				INFRASTRUCTURE AND AMENITIES			
				PUBLIC CAPITAL BUDGETING			
Com-munity Planning	Regional Devmnt. Planning	Feasblty./ Program Devmnt.	Organiz. Capacity Building	Facility Inventory	Needs Assess.	Capital Plans	
■		■	■	■	■	■	Alabama
■	■	■	■	■			Alaska
■	■	■	■	■	■	■	Arizona
■			■	■			Arkansas
■		■	■	■	■	■	California
■		■			■		Colorado
■		■	■	■		■	Connecticut
■		■		■	■	■	Delaware
		■	■	■	■	■	Florida
■		■	■	■			Georgia
			■	■		■	Hawaii
■			■	■	■	■	Idaho
■	■		■	■	■	■	Illinois
■		■					Indiana
■		■	■		■	■	Iowa
■			■		■	■	Kansas
■				■			Kentucky
				■	■	■	Louisiana
■	■			■			Maine
■		■	■	■	■	■	Maryland
■		■	■		■	■	Massachusetts
■	■	■	■	■	■	■	Michigan
■		■	■	■	■	■	Minnesota
■		■	■	■	■	■	Mississippi
■		■	■	■	■	■	Missouri
■			■	■	■		Montana
■			■	■			Nebraska
■		■	■	■	■	■	Nevada
■			■		■	■	New Hampshire
		■	■	■	■	■	New Jersey
■			■	■	■	■	New Mexico
■	■	■	■	■	■	■	New York
■			■			■	North Carolina
■		■	■				North Dakota
■		■	■	■		■	Ohio
■	■		■	■	■	■	Oklahoma
■	■	■		■	■	■	Oregon
■	■	■	■		■	■	Pennsylvania
■		■		■	■	■	Rhode Island
■		■	■	■			South Carolina
■		■	■	■			South Dakota
■		■	■	■	■	■	Tennessee
■			■	■			Texas
■		■	■				Utah
■			■	■	■	■	Vermont
■		■	■	■	■	■	Virginia
■		■	■	■	■	■	Washington
■	■	■	■				West Virginia
■		■	■		■	■	Wisconsin
■		■	■	■	■	■	Wyoming

State Policy Data

INFRASTRUCTURE AND AMENITIES

HOUSING

Affordability

	New Const. Assist.	Rehab. Assist.	Dev. Cost Assist.
Alabama			
Alaska	■	■	■
Arizona	■	■	■
Arkansas			
California	■	■	■
Colorado	■	■	■
Connecticut	■	■	■
Delaware	■	■	■
Florida	■	■	■
Georgia	■	■	■
Hawaii	■	■	■
Idaho			
Illinois	■		
Indiana			■
Iowa	■	■	
Kansas			
Kentucky			■
Louisiana			
Maine	■	■	■
Maryland	■	■	■
Massachusetts	■	■	■
Michigan	■	■	
Minnesota	■	■	■
Mississippi			
Missouri	■	■	■
Montana			
Nebraska			
Nevada	■		
New Hampshire	■		■
New Jersey	■	■	■
New Mexico		■	
New York	■	■	■
North Carolina	■	■	
North Dakota			
Ohio	■	■	■
Oklahoma			
Oregon	■	■	■
Pennsylvania	■	■	■
Rhode Island	■	■	■
South Carolina			
South Dakota		■	■
Tennessee	■	■	
Texas			
Utah			
Vermont	■	■	■
Virginia	■	■	■
Washington	■	■	■
West Virginia	■	■	■
Wisconsin	■	■	■
Wyoming			

Direct Assistance

	Home Ownshp.	Tenant Assist.
Alabama		
Alaska	■	
Arizona	■	■
Arkansas		
California	■	■
Colorado		
Connecticut	■	■
Delaware	■	
Florida	■	
Georgia	■	
Hawaii	■	■
Idaho		
Illinois		
Indiana		
Iowa	■	■
Kansas		
Kentucky	■	■
Louisiana		
Maine	■	■
Maryland	■	■
Massachusetts	■	■
Michigan	■	■
Minnesota	■	
Mississippi	■	
Missouri	■	■
Montana	■	
Nebraska		
Nevada		
New Hampshire	■	■
New Jersey	■	■
New Mexico		■
New York	■	■
North Carolina	■	
North Dakota	■	■
Ohio	■	■
Oklahoma	■	
Oregon		■
Pennsylvania	■	■
Rhode Island	■	■
South Carolina	■	
South Dakota	■	■
Tennessee	■	■
Texas		
Utah		
Vermont	■	
Virginia	■	■
Washington	■	■
West Virginia	■	
Wisconsin	■	■
Wyoming		

Special Needs

	Homeless	Elderly	Trust Funds
Alabama			
Alaska	■	■	
Arizona	■	■	■
Arkansas		■	
California	■	■	■
Colorado	■	■	
Connecticut	■	■	
Delaware	■		■
Florida		■	
Georgia	■		■
Hawaii	■		
Idaho			
Illinois		■	■
Indiana	■		■
Iowa	■	■	■
Kansas		■	
Kentucky	■	■	■
Louisiana		■	
Maine	■	■	■
Maryland	■	■	■
Massachusetts	■	■	
Michigan	■		■
Minnesota	■	■	■
Mississippi			
Missouri	■	■	■
Montana			
Nebraska			
Nevada			■
New Hampshire	■	■	
New Jersey	■	■	■
New Mexico			
New York	■	■	■
North Carolina	■	■	■
North Dakota			
Ohio	■	■	
Oklahoma	■		
Oregon	■	■	
Pennsylvania	■		
Rhode Island	■	■	■
South Carolina			
South Dakota	■	■	
Tennessee	■	■	■
Texas			
Utah	■		■
Vermont	■	■	■
Virginia	■	■	■
Washington	■	■	■
West Virginia	■		
Wisconsin	■	■	
Wyoming			

ENVIRONMENT

Solid Waste

	Bottle Bills	Mandatory Recycling	Procure Recycled
Alabama			
Alaska			■
Arizona			
Arkansas			
California	■		■
Colorado			■
Connecticut	■	■	■
Delaware	■		
Florida		■	■
Georgia			
Hawaii			■
Idaho			
Illinois			■
Indiana			■
Iowa	■		■
Kansas			■
Kentucky			
Louisiana		■	■
Maine	■	■	■
Maryland			■
Massachusetts	■		■
Michigan	■		■
Minnesota			■
Mississippi			■
Missouri			■
Montana			
Nebraska			
Nevada			
New Hampshire			■
New Jersey		■	■
New Mexico			
New York	■	■	■
North Carolina			■
North Dakota			■
Ohio			■
Oklahoma			■
Oregon	■		■
Pennsylvania		■	■
Rhode Island		■	■
South Carolina			
South Dakota			
Tennessee			■
Texas			■
Utah			■
Vermont	■		■
Virginia			■
Washington		■	■
West Virginia			■
Wisconsin		■	■
Wyoming			

Please refer to *State Policy Data Sources* and *State Policy Index* text for further detail on individual measures.

INFRASTRUCTURE AND AMENITIES

ENVIRONMENT							LAND-USE PROTECTION						
Hazardous Waste				Air and Water			Farmland Protection				Land-Use Mgmt.		
Pollution Prevent.	Waste Minimiz.	Property Transfer	State Superfund	Permits/ Emissions	Indoor Air	Ground-Water	Right-to Farm Laws	Dev. Rts. Purchase	Dev. Rts. Transfer	Agri. Dist. Ordins.	Growth Mgmt.	Wetlands Protection	
	■			■			■						Alabama
	■		■	■	■	■	■						Alaska
			■			■	■						Arizona
	■			■			■		■				Arkansas
■	■		■	■		■	■		■	■		■	California
				■		■	■				■		Colorado
	■	■	■	■	■	■	■	■				■	Connecticut
■	■			■		■	■				■	■	Delaware
	■		■	■	■	■	■		■	■	■	■	Florida
■	■		■	■		■	■				■		Georgia
				■			■			■	■		Hawaii
						■	■						Idaho
■	■	■	■	■		■	■			■			Illinois
■		■	■	■			■						Indiana
■	■	■		■	■	■	■			■		■	Iowa
			■	■			■						Kansas
■				■			■		■	■			Kentucky
■				■		■	■						Louisiana
■			■		■	■	■	■	■	■	■	■	Maine
				■		■	■	■	■	■		■	Maryland
■	■		■	■		■	■	■				■	Massachusetts
	■					■	■					■	Michigan
■	■		■	■	■	■	■			■		■	Minnesota
■	■			■			■						Mississippi
	■		■			■	■						Missouri
			■	■	■	■	■						Montana
					■	■	■						Nebraska
	■			■									Nevada
			■	■	■	■	■	■				■	New Hampshire
		■	■	■	■	■	■	■	■	■	■	■	New Jersey
				■		■	■						New Mexico
■	■		■	■	■	■	■		■	■		■	New York
■	■			■		■	■			■			North Carolina
				■			■					■	North Dakota
	■		■	■		■	■			■			Ohio
				■		■	■						Oklahoma
■	■		■	■		■	■			■	■	■	Oregon
	■		■				■	■	■	■		■	Pennsylvania
■	■		■	■	■		■	■			■	■	Rhode Island
■	■		■	■		■	■						South Carolina
						■							South Dakota
■	■		■	■		■	■						Tennessee
			■	■			■						Texas
					■		■						Utah
■					■	■	■	■	■		■	■	Vermont
				■		■	■		■	■		■	Virginia
■	■		■			■	■		■		■		Washington
				■		■	■						West Virginia
■			■	■	■	■	■			■		■	Wisconsin
				■		■							Wyoming

State Policy Data Sources

Note: As in past years, CFED supplements all the information about state programs and policies that are collected from secondary sources with a CFED State Policy Survey. To conduct the survey, CFED attempts to establish a consistent contact in each state government, designated by the Governor's office, to respond to the survey. The CFED State Policy Survey was distributed in November; data gathered on the survey are generally current as of December 1990.

This year the CFED Survey covered every measure in the State Policy Index except: the Tax and Fiscal System measures, the Education Support measures, the International Marketing measures, and the Transfer Payment Investment measures. Only three states – New Hampshire, New Mexico and Wisconsin – did not respond to the survey.

SUBINDEX ONE: GOVERNANCE

TAX AND FISCAL SYSTEM

■ ***Fiscal Stability and Balanced Revenue Sources***
Assessment of fiscal stability and balance of revenue sources, by state. Score.
Source: Corporation for Enterprise Development, "The Tax and Fiscal System Index," research report for the Economic Climate Project, December 1990.
Note: Please see *Appendix D: Tax and Fiscal System Index* for complete text of report.

■ ***Tax Fairness***
Assessment of tax fairness, by state. Score.
Source: Same as Fiscal Stability and Balanced Revenue Sources.

■ ***Fiscal Equalization***
Assessment of fiscal equalization, by state. Score.
Source: Same as Fiscal Stability and Balanced Revenue Sources.

■ ***Final Score***
Assessment of tax and fiscal system, by state. Score.
Source: Same as Fiscal Stability and Balanced Revenue Sources.

REGULATORY REFORM

■ ***One-Stop Permit Shops***
States with one-stop permitting systems, 1990.
Source: U.S. Small Business Administration, Office of Advocacy, *Directory of State Business Issues: Looking Toward the Future* (Washington DC: Government Printing Office, October 1985); and U.S. Small Business Administration, Office of Advocacy, "State Small Business Activities," unpublished table, updated, Washington DC, 1986.

■ ***Small Business Regulatory Alternatives***
States that require their regulatory agencies to consider alternatives to new proposed rules, so as to accomplish the stated objectives of the law but minimize the economic impact on small businesses, 1990.
Source: Office of Advocacy, US Small Business Administration, *The State and Small Businesses: 1989 Edition* (Washington DC: Government Printing Office, 1989).

Liability Reform

■ ***Liability Modification***
States that have enacted liability reforms that involve either a form of comparative negotiation, or that make each defendant liable for his or her proportional share based on degree of fault, 1990.
Source: *Tort Reform Record*, June 30, 1990, American Tort Reform Association, Washington DC.

■ ***Punitive Damage Limits***
States that have limited punitive damages using either explicit caps or devised formulas based on figures like the defendants' annual income or profit derived from the tort committed, 1990.
Source: Same as Liability Modification.

■ ***Compensatory Award Reduction***
States that have enacted reforms involving the relaxation of the collateral source rule, to allow juries to consider all sources of funding available for payment of damages to the plaintiff, 1990.
Source: Same as Liability Modification.

ECONOMIC DEVELOPMENT GOVERNANCE

■ ***Strategic Plan***
States with an economic development strategic plan that is accepted by the Governor, includes an analysis of the state economy, recommends specific initiatives or strategies, and involved public and private sector leaders in the process, 1990.
Source: National Conference of State Legislatures, "1989 State Economic Development Survey Results," Economic Development Program Report, Denver CO, January 1990. CFED assessment of individual state plans.
Note: Plans completed under a previous Governor are not counted if the current Governor has been in office for over two years without establishing a new strategic plan.

■ ***Evaluation***
States that have conducted an evaluation of at least one economic development program or agency since 1985, which includes an analysis of ongoing program activities and recommendations for change, as of 1990.
Source: National Conference of State Legislatures, "Evaluations of Economic Development Programs and Agencies," staff report, Denver CO, June 1989. CFED assessment of evaluations.
Note: Annual reports or zero-base budgets are not counted as evaluations.

SUBINDEX TWO: WORKFORCE DEVELOPMENT

EDUCATION

Education Support

■ ***Pupil Spending, K-12***
Current expenditures for public elementary and secondary schools, per pupil (average daily attendance) as percent of per capita income, 1988-1989.
Source: Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

■ ***Pupil Spending, Higher Education***
State support for higher education per pupil (full-time equivalent) as percent of per capita income, 1988-1989.
Source: Same as Pupil Spending, K-12.

State Policy Data Sources

■ ***Average Teacher Salary***
Average teacher salary (1989-90) as a percent of average annual pay (1989).
Source: American Federation of Teachers, "Survey and Analysis of Salary Trends 1990," Research Department study, Washington DC, July 1990; U.S. Department of Labor, Bureau of Labor Statistics, "Average Annual Pay by State and Industry, 1989," USDL 90-431 News Release, Washington DC, August 22, 1990. Calculations by CFED.

■ ***Beginning Teacher Salary***
Beginning teacher salary (1989-1990) as a percent of average annual pay (1989).
Source: Same as Average Teacher Salary.

■ ***Change in Teacher Salary***
Change in average teacher salary, from school year 1980-81 to school year 1989-1990, Percent.
Source: American Federation of Teachers, "Survey and Analysis of Salary Trends 1990," Research Department study, Washington DC, July 1990.

Education Reform

School Accountability Policies

■ ***Comprehensive School Performance Indicators***
States that have a comprehensive system of performance indicators for schools that measure progress and ensure accountability, 1990.
Source: Council of Chief State School Officers, *State Education Indicators 1989* (Washington DC: Council of Chief State School Officers, 1990).

■ ***School Incentives***
States that have established accountability systems that relate direct rewards or sanctions to school or district performance, 1990.
Source: Same as Comprehensive School Performance Indicators.

Teacher Policies

■ ***Alternative Certification***
States that offer alternative routes for teacher certification to skilled persons outside the education field, 1990.
Source: Same as Comprehensive School Performance Indicators.

■ ***Teacher Incentives***
States that have fully implemented statewide teacher incentive programs such as career ladders, differentiated pay, teacher mentors or career development, 1990.
Source: *Career Ladder Clearinghouse*, January 1990, Southern Regional Education Board, Atlanta GA.

■ ***Teacher Induction***
States that sponsor activity that offers assistance, evaluation and/or support for employed beginning teachers, 1990.
Source: National Governors' Association, *Results In Education: 1989* (Washington DC: National Governors' Association, 1989).

Student Policies

■ ***Early Childhood Education Programs***
States with early childhood (pre-kindergarten) education programs, not including those for handicapped or Chapter 1 youngsters, 1990.
Source: American Association of Colleges for Teacher Education, *Teacher Education Policy in the States: A 50-State Survey of Legislative and Administrative Actions* (Washington DC: American Association of Colleges for Teacher Education, June 1990).

■ ***High School Math and Science Requirements***
Math and science course units required for high school graduation, 1990. Number.
Source: Same as Comprehensive School Performance Indicators.

■ ***High School Competency Test Requirement***
States that require a competency test for high school graduation, 1990.
Source: Same as Comprehensive School Performance Indicators.

Worker Investment

■ ***State Training Programs***
States that fund (not counting JTPA funds) job training programs that provide customized employer-specific training or support joint public-private programs to retrain or upgrade the skills of current workers or the recently unemployed, 1990.
Source: Peter A. Creticos, Steve Duscha and Robert G. Sheets, *State-Financed, Customized Training Programs: A Comparative State Study* (Washington DC: Office of Technology Assessment, February 1990).
Note: To be counted, a program must devote at least 50% of its available funds to customized training projects, and receive at least 30% of its total funding from state sources.

■ ***Workforce Literacy***
States that systematically involve the private sector in efforts to promote workforce literacy, including ongoing literacy commissions or task forces and state-provided funding or incentives for workforce literacy, 1990.
Source: National Governors' Association, Preliminary results from "Survey of State Literacy Initiatives," Washington DC, 1990. Formal results will be published in a forthcoming report by NGA's State Literacy Exchange.

■ ***Labor-Management Assistance***
States that provide financial assistance for the creation of area and in-plant labor-management committees, 1990.
Source: Consortium of State Labor-Management Initiatives, "State Labor-Management Program Information," unpublished table, March 1989.

■ ***Employee Ownership Assistance***
States with employee ownership programs, 1990.
Source: National Center for Employee Ownership, staff interview, Oakland CA, 1990.

■ ***Transfer Payment Investment***
Assessment of current state efforts in welfare-to-work programs and using unemployment insurance to help workers become self-sufficient, 1990. Score.
Source: The Corporation for Enterprise Development, "Transfer Payment Investment Index," research report for Economic Climate Project, January 1991.
Note: Please see *Appendix E: The Transfer Payment Investment Index* for complete text of report.

SUBINDEX THREE: TECHNOLOGY AND INNOVATION

STIMULATING RESEARCH

■ ***Research and Development Centers***
States that finance research and development centers, 1990.
Source: U.S. Department of Commerce, The Clearinghouse for State and Local Initiatives on Productivity, Technology, and Innovation, unpublished database, Washington DC, October 1990.

State Policy Data Sources

■ ***Research and Development Grants***
States with research and development grants programs, 1990.
Source: Same as Research and Development Centers.

■ ***Small Business Innovation Research Grants***
States that use state staff and/or funding to help small businesses tap into the federal government requirement that certain agencies set aside a portion of their R&D budgets for small businesses, 1990.
Source: Same as Research and Development Centers.

MODERNIZING COMPANIES

■ ***Technology Transfer***
States with programs that facilitate the transmission of new technologies from the laboratory to the private sector, 1990.
Source: Same as Research and Development Centers.

■ ***Technology Deployment Assistance***
States that assist state firms with deploying leading edge technologies, 1990.
Source: Same as Research and Development Centers.

■ ***Business Incubators***
States that fund incubator facilities that provide below-market rates for office and lab space and offer shared support services to start-up companies, 1990.
Source: Same as Research and Development Centers.

SUBINDEX FOUR: INTERNATIONAL MARKETING

EXPORT PROMOTION

■ ***Foreign Trade Offices***
Foreign trade offices in operation, 1990. Number.
Source: National Association of State Development Agencies, pre-publication figures from forthcoming *State Export Program Database* (Washington DC: National Association of State Development Agencies, 1991).

■ ***Trade Seminars***
Seminars on exporting, sponsored or co-sponsored by the state, conducted for businesses, per 10,000 business establishments, 1990. Number.
Source: National Association of State Development Agencies, pre-publication figures from forthcoming *State Export Program Database* (Washington DC: National Association of State Development Agencies, 1991); U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Wages: Annual Averages, 1988*, Bulletin 2341 (Washington DC: U.S. Government Printing Office, October 1989).

■ ***Export Finance***
States that provide direct credit to help finance exporters, or that provide them with loan guarantees, 1990.
Source: Same as Foreign Trade Offices.

■ ***Trade Staff***
State staff working on international trade programs in domestic and overseas offices, per 10,000 business establishments, 1990. Number.
Source: Same as Trade Seminars.

■ ***Trade Shows***
State-sponsored trade shows conducted outside the U.S., 1990. Number.
Source: Same as Foreign Trade Offices.

■ ***Trade Missions***
State-sponsored trade missions to foreign countries, 1990. Number.
Source: Same as Foreign Trade Offices.

■ ***Multistate Export Promotion Efforts***
States that engage in collaborative efforts with other states to promote trade (exclusive of tourism), 1990.
Source: Same as Foreign Trade Offices.

EXPORT INFORMATION

■ ***Market Studies***
States that prepare overseas market research and industry studies for companies about the potential for export development, 1990.
Source: Same as Foreign Trade Offices.

■ ***Language Bank***
States that offer businesses foreign language libraries and translation services, 1990.
Source: National Governors' Association, staff interview, Washington DC, 1991.

■ ***Trade Newsletters***
States that issue publications notifying businesses about recent trade developments and state export services, 1990.
Source: Same as Foreign Trade Offices.

■ ***How-to-Export Directory***
States that publish a how-to guide on tapping the export market, 1990.
Source: Same as Foreign Trade Offices.

■ ***Overseas Agent/Distributor Identification***
States that assist companies by identifying overseas agents and distributors for their products, 1990.
Source: Same as Foreign Trade Offices.

■ ***Export Product Directories***
States that publish descriptions of products made by in-state companies that are available for export, 1990.
Source: Same as Foreign Trade Offices.

SUBINDEX FIVE: DEVELOPMENT FINANCE

Note: Because they are repeated so frequently, the following sources are referred to in this Subindex's Data Source listing according to the following reference letters.

a. U.S. Small Business Administration, *Capital Formation in the States* (Washington DC: Government Printing Office, 1988).
b. Northeast-Midwest Institute, *The Guide to State and Federal Resources for Economic Development* (Washington DC: Northeast-Midwest Institute, 1988).
c. Governor's Commission on the Economic Future of Minnesota, *The Report of the Governor's Commission on the Economic Future of Minnesota* (St. Paul: Governor's Commission on the Economic Future of Minnesota, 1987).
d. U.S. Small Business Administration, *The Small Business Advocate, Special Edition* (Washington DC: Government Printing Office, 1988).

State Policy Data Sources

e. Gary Bettger, "State Venture Capital Initiatives," *State Legislative Report*, February 1986.
f. "Interstate Statutes with Deposit Restriction and/or Reinvestment Requirements," *Banking Expansion Reporter*, June 1986, May 1988 and "Interstate Banking Laws: State by State," *Banking Expansion Reporter*, August 20, 1990.
g. U.S. Small Business Administration, *The States and Small Business: Programs and Activities* (Washington DC: U.S. Government Printing Office, November 1986).
h. U.S. Small Business Administration, *State Activities in Capital Formation: Venture Capital, Working Capital, and Public Pension Fund Investments* (Washington DC: Government Printing Office, June 1985).
i. National Association of State Development Agencies, *Analysis of Innovative State Economic Development Financing Programs* (Washington DC: National Association of State Development Agencies, August 1985).
j. National Association of State Development Agencies, *Directory of Incentives for Business Investment and Development in the United States* (Washington DC: The Urban Institute Press, 1986).
k. Center for Policy Alternatives, *State Report on Economic Initiatives* (Washington DC: Center for Policy Alternatives, September 1990).

FINANCING TYPES AND DIVERSITY

■ ***Seed Capital Funds***
States that provide pre-start-up capital to new ventures, 1990.
Source: a,b,c,g,h.

■ ***Venture Capital Funds***
States with publicly-capitalized venture capital corporations, 1990.
Source: a,b,c,e,g,h,i.

■ ***Product Development Finance***
States that provide royalty financing for specific product or production processes, 1990.
Source: a,b,c,g,h.

■ ***Long-Term Finance***
States that provide debt financing for specific product or production processes, 1990.
Source: b,d,g,i.

■ ***Medium-Risk Intermediate/Long-Term Finance***
States that provide intermediate/long term debt on an unsecured or subordinated basis, or secured by "soft" assets such as inventories and accounts receivable, 1990.
Source: b,g.

LEVERAGING INNOVATIONS

■ ***Leveraged Public Investments***
States that directly invest in privately managed "public benefit" financial institutions that are designed to leverage private investment, 1990.
Source: b,e,g,h,i.

■ ***Tax Credit Finance***
States that provide for tax credits as a mechanism to create new financial institutions, such as a venture capital corporation, 1990.
Source: b,e,h.

■ ***Loan Guarantees***
States with business loan guarantee programs, 1990.
Source: b,d,g,h,i.

■ ***Secondary Market Mechanisms***
States that purchase loans originated by financial institutions, such as SBA-guaranteed loans, 1990.
Source: b,j,i.

■ ***Linked Deposits***
States that tie state deposits to a bank based on its willingness to make loans to certain types of targeted firms, 1990.
Source: a,b,h.

■ ***Sub-State Development Finance Support***
States that support public or quasi-public development finance institutions that operate on a regional or local level, 1990.
Source: b,j.

REGULATORY INNOVATIONS

■ ***Pension Fund Investment***
States that invest public pension funds in in-state businesses, including venture capital, commercial mortgages, secondary markets, and other business financing, 1990.
Source: a,e,h,i.

■ ***BDCs and BIDCOs***
States that allow the creation of private non-depository financial institutions that would not be permitted under general state banking regulation, 1990.
Source: h,j.

■ ***Community Reinvestment Acts***
States with community reinvestment acts, 1990.
Source: k.

■ ***Interstate Banking Reinvestment Provisions***
States that permit interstate banking with community protections, 1990.
Source: f,k.

SUBINDEX SIX: LOCAL ECONOMIC DEVELOPMENT ASSISTANCE

■ ***Community Planning***
States that provide formal staff assistance or state funds to local jurisdictions to undertake community planning, including broad assessments of economic conditions and trends, economic resource inventories, identification of public and private sector actions to support economic activity and meet employment needs, or "prepared communities" programs targeted at communities with fewer than 50,000 residents, 1990.
Source: Peter Kwass, Brandon Roberts, Beth Siegel and Mona Hochberg, "State-Sponsored Technical Assistance for Local Economic Development," report prepared by Mt. Auburn Associates commissioned by U.S. Department of Commerce, Economic Development Administration, EDA Project No. 99-07-13711, Washington DC, 1990.

■ ***Regional Development Planning***
States that provide specified formal staff assistance or funds to assist in the development of regionally-based economic development plans, 1990.
Source: Same as Community Planning.
Note: General support of or funding to regional planning commissions are not counted.

State Policy Data Sources

■ ***Project Feasibility or Program Development***
States that provide formal staff assistance or state funds to help local areas conduct project feasibility studies or develop new programs. 1990.
Source: Same as Community Planning.

■ ***Organization Capacity Building***
States that provide formal staff assistance or state funds for technical assistance or general support for the development of local economic development organizations. 1990.
Source: Same as Community Planning.

SUBINDEX SEVEN: INFRASTRUCTURE AND AMENITIES

PUBLIC CAPITAL BUDGETING

■ ***Facility Inventory***
States that maintain a central unified inventory of public facilities. 1990.
Source: National Conference of State Legislatures, *Capital Budgeting and Finance* (Denver: National Conference of State Legislatures, November 1987).

■ ***Needs Assessments***
States that provide regular assessments of facility conditions and investment needs. 1990.
Source: Same as Facility Inventory.

■ ***Capital Plans***
States that develop long-range capital plans to guide annual capital budget requests. 1990.
Source: Same as Facility Inventory.

Housing

Affordability

■ ***New Construction Assistance***
States that use own-source funds to finance new housing construction. 1990.
Source: Council of State Community Affairs Agencies, *State Housing Initiatives: The 1990 Compendium* (Washington DC: Council of State Community Affairs Agencies, 1990); National Council of State Housing Agencies, *The HFA Resource Book* (Washington DC: National Council of State Housing Agencies, 1989).

■ ***Rehabilitation Assistance***
States that use own-source funds to provide financial assistance for housing rehabilitation. 1990.
Source: Same as New Construction Assistance.

■ ***Pre-Development and Development Cost Assistance***
States that use own-source funds for financial assistance for land acquisition and/or development. 1990.
Source: Same as New Construction Assistance.

Direct Assistance

■ ***Home Ownership***
States that use own-source funds to provide financial assistance for home ownership. 1990.
Source: Same as New Construction Assistance.

■ ***Tenant Assistance***
States that use own-source funds for financial assistance to tenants. 1990.
Source: Same as New Construction Assistance.

Special Housing Needs

■ ***Homeless***
States that use own-source funds to provide shelters and prevent homelessness, 1990.
Source: Same as New Construction Assistance.

■ ***Elderly***
States that use own-source funds for construction, rehabilitation and rent subsidies for housing and special services for elderly residents, 1990.
Source: Same as New Construction Assistance.

■ ***Housing Trust Funds***
States with dedicated funds for housing construction and other selected housing programs, 1990.
Source: Housing Trust Fund Project, staff interview, San Pedro, CA, 1990.

Environment

Solid Waste Management

■ ***Bottle Bills***
States with laws intended to promote recycling of glass, metals and plastic by placing a deposit on beverage containers redeemable upon return of the container, 1990.
Source: National Container Recycling Coalition, "State Beverage Container Deposit Laws (USA), Provisions of the Law and Documented Data," unpublished table, Washington DC, August 1990.

■ ***Mandatory Recycling***
States with laws requiring either curbside separation of paper, glass and metals, or an established recycling percentage for waste stream components, 1990.
Source: Environmental Protection Agency, Recycling Section, staff interview, Washington DC, October 1990.

■ ***Government Procurement of Recycled Products***
States with laws to promote the purchase of recycled paper and other products by means of set-aside contracts or price preferences favoring products incorporating recycled materials, 1990.
Source: Same as Mandatory Recycling.

Hazardous Waste Management

■ ***Pollution Prevention***
States that have enacted legislation to prevent pollution that includes providing technical assistance, grants or research; requiring facility plans aimed at source reduction or prevention; and encouraging users of toxic or hazardous materials to adopt input, process or product changes and/or adopt in-house recycling programs, 1990.
Source: Waste Reduction Institute, "Survey of State Legislation - Pollution Prevention," unpublished table, Minneapolis, MN, October 1990.

■ ***Waste Minimization***
State programs to reduce hazardous waste production and encourage recycling of waste products, 1990.
Source: Roger N. Schecter, "Profile of State Waste Reduction Programs," in *Hazardous Waste Minimization*, ed. Harry M. Freeman (New York: McGraw Hill, 1990).

■ ***Property Transfer Law***
States with laws requiring owners who are selling a property to certify the absence of hazardous materials on the property, 1990.
Source: U.S. Environmental Protection Agency, Office of Emergency and Remedial Response, *An Analysis of State Superfund Programs: 50 State Study* (Washington DC: U.S. Environmental Protection Agency, September 1989).

State Policy Data Sources

■ ***State Superfund***
States that actively use their Superfund enforcement authority and hazardous waste site cleanup funds, and fine responsible parties for site remediation. 1990.
Source: Same as Property Transfer Law.

Air and Water Pollution Control

■ ***Air Permits and Emissions Fees***
States with air permits and emissions fees. 1990.
Source: State and Territorial Air Pollution Program Administrators and the Association of Local Air Pollution Control Officials, "Air Permit and Emission Fees: Results of a Survey," Washington DC, April 1989.

■ ***Indoor Air Pollution Control***
States with comprehensive restrictions on indoor air pollution caused by tobacco. 1990.
Source: Tobacco Free America, "State Legislated Actions on Tobacco Issues," Legislative Clearinghouse staff paper, Washington DC, September 1990.

■ ***Groundwater Protection***
States with numeric standards established for specific groundwater contaminants. 1990.
Source: Eleanor Chelimsky, "Fighting Groundwater Contamination: State Activities to Date and the Need for More Information from EPA," in U.S. Congress, Senate, Committee on Environment and Public Works, *Groundwater Protection: Hearings on S. 20, S. 1105, and H.R. 791*, 100th Congress, 2nd session, May 17, 1988.

Land-Use Protection

Farmland Protection

■ ***Right-to-Farm Laws***
States with laws to protect farmers from certain legal actions against normally accepted farming practices. 1990.
Source: American Farmland Trust, staff interview, Washington DC, October 1990.

■ ***Development Rights — Purchase***
States that may purchase the development rights of farmland by paying the owner the difference between the market value and farm-use value of the land. 1990.
Source: Same as Right-to-Farm Laws.

■ ***Development Rights — Transfer***
States that allow qualifying developers to increase development density in designated receiving areas if they purchase development rights from farmers whose property is in other designated sending areas, to protect their use of land for farming. 1990.
Source: Same as Right-to-Farm Laws.

■ ***Agriculture District Ordinances***
States that allow farmers to organize land into legally recognized geographic areas restricted to agricultural use. 1990.
Source: Same as Right-to-Farm Laws.

Land-Use Management

■ ***Growth Management***

States with laws that give state and regional governments authority over certain local land-use decisions so as to address the long-term effects of growth on quality of life issues, 1990.

Source: John DeGrove, "Growth Management and Governance," Florida Atlantic University, prepared for Growth Management Conference sponsored by the Urban Land Institute, September 1988, as cited in Renew America, *The State of the States 1989* (Washington DC: Renew America, February 1989).

■ ***Wetlands Protection***

States with laws that regulate activities in coastal or freshwater wetlands, 1990.

Source: Deming Coles et al., *State Wetlands Protection Programs: Status and Recommendations* (Washington DC: U.S. Environmental Protection Agency, 1986) and Beth Millemann, The Coast Alliance, staff interview, Washington DC, October 1988 — both as cited in Renew America, *The State of the States 1989* (Washington DC: Renew America, February 1989).

Unless otherwise noted, the data for population calculations comes from the U.S. Bureau of the Census, press release, CB89-204, December 29, 1989, as reported in Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

Appendix A

RURAL/URBAN DISPARITY INDEX

For the second year running, to augment the Equity Subindex in the Economic Performance Index, CFED devised a rural/urban disparity measure to help gauge the difference between how rural and urban counties within in a state perform on a variety of indicators.

WHY A RURAL/URBAN MEASURE?

One major finding that emerged from our 1988 and 1989 *Report Cards* was rather striking. When the measures that comprise the four main Indexes were compared, many predominantly rural states were found lagging. In fact, every state that scored only *D*'s and *F*'s on three or all four Indexes in 1989 was rural or thinly populated, with an economy heavily dependent on agriculture and/or other natural resource-based industries. Moreover, of the 13 states that earned no *A*'s or *B*'s on any Index in 1989, all but one was best characterized as rural.

The implication was fairly clear — the nation's rural areas had not enjoyed the prosperity born of the vaunted 1980's economic recovery. Yet, we knew that the mere fact of *being* rural did not preclude robust economic performance or hinder pursuing an aggressive development policy. Vermont, which clearly ranked near the head of the *1989 Development Report Card* class with three *A*'s and a *B*, also managed to employ nearly nine out of every ten people residing in its rural areas. Other predominantly rural states earned excellent marks on one or more of the four Indexes.

Nonetheless, the troubling signals seemed to confirm a growing consensus among observers. Here at CFED, we wanted to look more closely at how rural areas are faring across the nation. To accomplish this, we employed the basic framework of the *Report Card*, but focused on rural areas in each of the fifty states to produce the *1989 Rural Economic Climate Report*. We decided to include selected measures from that study in last year's *1990 Development Report Card*, specifically those that compare how economic performance differs between rural and urban areas within a state, including employment growth, unemployment, earnings growth, average earnings and poverty. This year, we updated that analysis with one only change: the poverty factor was eliminated due to measurement difficulties at the county level.

WHAT IS RURAL?

The first, and perhaps most sensitive, issue faced in this effort was: how do you define the term "rural?" For our purposes, we selected a definition of "non-metropolitan" developed by the U.S. Department of Agriculture Economic Research Service, one commonly (but not solely) used in recent government data collection and many private-sector studies. In it, "rural" can be defined generally as a

section along a continuum that runs from metropolitan to nonmetropolitan. Specifically, it includes counties that do not meet current criteria of independence, size, and commuting integration that would classify them as being part of a metropolitan statistical area. In effect, although these "rural" counties may differ significantly from each other — one could have an urban population of over 20,000 and be adjacent to a metro area, another may be completely "country" and remote — they are all free-standing with respect to their reliance on a metro area.

To arrive at nonmetro measures for an entire state, we have summed the data for individual nonmetro counties within each state. Of course, there are problems with aggregating data in this way. Many rural experts take issue, and justifiably so, with lumping together counties of one thousand, say, with those having 25,000 residents, or counties adjacent to metro areas with those that are nonadjacent. However, this definition is both comprehensive, and one widely used by other analysts.

The rural/urban disparity data and data sources that comprise the 1991 Rural/Urban Disparity measure follow. Please note that because New Jersey has no nonmetropolitan counties, its calculations show no disparity; therefore, its data should be disregarded for these Rural/Urban Disparity measures.

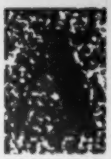
APPENDIX

Rural/Urban Disparity Data*

	Employment Growth Long-Term		Employment Growth Short-Term		Unemployment Rate		Average Earnings		Earnings Growth Long-Term		TOTAL 6 pts. min.	
	Pts.	Rank	Pts.	Rank	Pts.	Rank	Ratio	Rank	Pts.	Rank	Score	Rank
Alabama	[5]	16	0.5	10	1.6	31	0.84	20	4	40	117	23
Alaska	14	37	3.3	46	3.0	48	0.95	5	[3]	24	160	45
Arizona	6	17	4.1	48	4.7	50	0.88	10	[3]	24	149	39
Arkansas	[8]	24	0.7	16	1.3	26	0.87	13	3	24	103	14
California	1	4	0.7	16	4.5	49	0.77	37	[3]	24	130	31
Colorado	[10]	29	[0.3]	7	1.1	20	0.75	43	[3]	24	123	29
Connecticut	10	29	0.2	3	0.6	9	0.80	33	1	7	81	6
Delaware	[4]	13	[1.2]	32	0.7	11	0.71	45	3	24	125	30
Florida	8	24	2.3	41	0.5	6	0.82	24	[1]	7	102	13
Georgia	[14]	37	0.8	20	1.0	17	0.76	40	[3]	24	138	35
Hawaii	19	47	4.1	48	1.0	17	0.85	18	[1]	7	137	34
Idaho	[10]	29	[3.3]	46	2.2	37	0.84	20	0	1	133	33
Illinois	[6]	17	0.3	7	2.3	41	0.70	46	[9]	49	160	45
Indiana	[2]	8	[0.3]	7	0.8	15	0.83	22	[1]	7	59	2
Iowa	[16]	44	[0.9]	23	0.2	3	0.82	24	2	17	111	18
Kansas	[19]	47	[1.1]	30	0.1	2	0.76	40	0	1	120	26
Kentucky	[10]	29	[1.0]	28	2.3	41	0.81	29	[3]	24	151	40
Louisiana	[10]	29	0.6	13	2.7	45	0.85	18	[1]	7	112	19
Maine	0	1	0.7	16	1.1	20	0.91	7	[3]	24	68	4
Maryland	28	49	1.1	30	1.6	31	0.77	37	1	7	154	42
Massachusetts	17	45	1.3	35	0.5	6	0.73	44	3	24	154	42
Michigan	1	4	0.9	23	1.5	30	0.67	48	0	1	106	15
Minnesota	[14]	37	[0.9]	23	1.4	29	0.68	47	[3]	24	160	45
Mississippi	[15]	40	1.6	37	2.2	37	0.86	16	5	42	172	49
Missouri	[6]	17	1.4	36	1.3	26	0.63	50	2	17	146	38
Montana	[2]	8	[5.0]	50	0.9	16	0.90	8	8	48	130	31
Nebraska	[15]	40	[0.9]	23	0.2	3	0.87	13	5	42	121	27
Nevada	8	24	[1.0]	28	0.5	6	0.99	2	3	24	84	8
New Hampshire	6	17	2.0	40	[0.7]	11	0.88	10	2	17	95	11
New Jersey †	0	1	0.0	1	0.0	1	1.00	1	0	1	5	1
New Mexico	[11]	35	1.2	32	2.2	37	0.90	8	[4]	40	152	41
New York	2	8	1.2	32	1.2	22	0.65	49	[7]	46	157	44
North Carolina	[6]	17	[0.7]	16	1.0	17	0.82	24	0	1	75	5
North Dakota	[36]	50	[3.0]	44	1.8	35	0.82	24	[11]	50	203	50
Ohio	[6]	17	[0.6]	13	1.6	31	0.81	29	[3]	24	114	20
Oklahoma	[1]	4	[1.8]	39	1.2	22	0.82	24	2	17	106	15
Oregon	6	1	[0.8]	20	2.4	43	0.88	10	[1]	7	81	6
Pennsylvania	2	8	0.2	3	1.6	31	0.81	29	[6]	44	115	21
Rhode Island	[15]	40	[1.6]	37	[0.2]	3	0.99	2	[3]	24	106	15
South Carolina	[12]	36	0.9	23	2.2	37	0.87	13	1	7	116	22
South Dakota	[4]	13	0.1	2	0.7	11	0.83	22	2	17	65	3
Tennessee	1	4	2.6	43	1.9	36	0.80	33	0	1	117	23
Texas	[4]	13	[2.3]	41	0.6	9	0.79	35	3	24	122	28
Utah	[15]	40	0.5	10	1.3	26	0.95	6	1	7	89	10
Vermont	8	24	[3.1]	45	1.2	22	0.77	37	2	17	145	37
Virginia	[10]	29	0.6	13	2.4	43	0.76	40	[2]	17	142	36
Washington	[9]	28	[0.8]	20	2.8	46	0.81	29	[7]	46	169	48
West Virginia	2	8	0.2	3	2.8	46	0.86	16	[6]	44	117	23
Wisconsin	[6]	17	0.2	3	1.2	22	0.78	36	1	7	85	9
Wyoming	18	46	0.5	10	[0.7]	11	0.97	4	3	24	95	11

* Ranking is based on absolute value. Bracketed data indicates states where the urban value for a measure was greater than rural. Unbracketed data indicates states where the rural value exceeded the urban.

† Please disregard New Jersey for these measures. See *Rural/Urban Disparity Data Sources* and *Rural/Urban Disparity* appendix text for explanation.



APPENDIX

Rural/Urban Disparity Data Sources

Note: Because New Jersey has no counties classified as non-metropolitan, it automatically earns a "0" point difference for each measure, and thus receives a rank of "1" for each. This is an "artificial" result; New Jersey should be disregarded on all Rural/Urban Disparity measures.

■ ***Long-Term Employment Growth Difference***
Absolute value difference between the state's non-metropolitan and metropolitan counties' long-term employment growth rates, 1984-89. Percentage points.
Source: U.S. Department of Agriculture, Economic Research Service, Agriculture and Rural Economy Division, unpublished data, Washington DC, 1990. Calculations by CFED.

■ ***Short-Term Employment Growth Difference***
Absolute value difference between the state's non-metropolitan and metropolitan counties' short-term employment growth rates, 1988-89. Percentage points.
Source: Same as Long-Term Employment Growth Difference.

■ ***Unemployment Difference***
Absolute value difference between the state's non-metropolitan and metropolitan counties' unemployment rates, 1989. Percentage points.
Source: Same as Long-Term Employment Growth Difference.

■ ***Average Earnings Ratio***
Ratio of non-metropolitan counties' to metropolitan counties' average annual labor and proprietor earnings, per full-time worker, 1988. Ratio.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Tables CA5 — Personal 1983-88," unpublished data disk, Washington DC, 1990. Calculations by the U.S. Department of Agriculture, Economic Research Service, Agriculture and Rural Economy Division and CFED.

■ ***Long-Term Earnings Growth Difference***
Absolute value difference between the state's non-metropolitan and metropolitan counties' change in average annual labor and proprietor earnings, per full-time worker, 1984-88. Percentage points.
Source: Same as Average Earnings Ratio.

Appendix B

TRADED SECTOR AND STRUCTURAL DIVERSITY

Despite the fundamental importance of competitiveness and industrial diversity to a state economy, there are no simple or straightforward measures that capture these dimensions in a state's business sectors. As part of the *Development Report Card*'s Business Vitality Index, CFED has devised four special indicators of industrial competitiveness and diversity.

Traded Sector Strength reflects the value added by the key industries in a state, an important factor in assessing the state's competitiveness. Similarly, the levels of *Dynamic Diversity* and *Sectoral Diversity* indicate how vulnerable a state may be to downturns in one or several of its critical industries.

Because these measures are more complicated and less intuitive than, say, business failures or employment, we offer here a more extensive explanation of each.

TRADED SECTOR STRENGTH

As we described earlier, the engine of any state economy is its traded sector, comprised of those in-state businesses producing goods and services that compete with firms outside the state. Traded sector firms bring new wealth into an economy by exporting goods and services, and/or they retain wealth in an economy by substituting for the goods and services that otherwise would have to be imported.

The ideal way to estimate traded sector income would be to use an up-to-date input-output table to calculate precisely the value of the goods and services that a state's businesses export. Unfortunately, such up-to-date data do not exist; the latest are over a decade old.

As an alternative, we calculate the size of a state's traded sector by the amount of income it brings into the economy for each civilian worker. Using 1989 data, for each industry in a state, we estimate the amount of income that industry derives from its traded sector activities, and then sum across all industries to arrive at traded sector income for the state.

Of course, the difficulty in designing such a measure is specifying which industries within an individual state's economy are, in fact, "traded." For each state, there is a set of fully-traded and partially-traded industries. To determine those, we start with the U.S. Bureau of Economic Analysis (BEA) classification of industries (as designated by SIC codes) as fully-, partially- and non-traded, and then augment it with our own research.

Industries we count as fully-traded include: farming, agricultural services, forestry, fisheries, coal mining, petroleum mining, metals mining, manufacturing (except for food processing and printing/publishing), railroad transportation, pipeline transportation, water transportation, mail-order houses, insurance carriers, and research and development.

Partially-traded industries differ from state to state according to the extent to which their activities are traded. For instance, although in most states banking is a local, non-traded activity, in states like New York and Delaware, much banking activity is traded. Partially-traded industries may include: non-metals mining, food processing, print/publishing, air transportation, trucking, transportation services, utilities, communication, wholesale trade, health services, legal services, engineering services, accounting, advertising, banking, securities brokers, hotels, amusements and recreation, motion pictures, educational services, and federal government.

We then use two steps to determine the extent to which the income from the partially-traded industries in each state should be counted as traded. First, we determine a "location quotient" for each industry in each state. A location quotient measures an industry's share of state employment relative to its share of national employment. A location quotient of 1.0 means that the industry has the same share of state employment as it does national employment. A quotient of 1.5 means that the industry's share of employment in the state is 50 percent more than its national share.

Next, starting with the BEA framework, we analyze the distribution of location quotients for each partially-traded industry to determine the appropriate formula for estimating the percent of industry income that is traded. In each industry, the higher the location quotient, the higher the percent of income that is attributed to the industry's trading activity.

To calculate total traded sector income, incomes from the totally-traded and partially-traded sectors are added together. To arrive at the measure of Traded Sector Strength, we divide the sum of traded sector income by the number of civilian workers in a state, so as to be able to compare across states.

STRUCTURAL DIVERSITY MEASURES

In measuring Structural Diversity in a state's economic base, our analysis considers both how diverse a state's economic structure *looks* — for example, how its employment is distributed over a wide range of industries — and how diverse it *acts*.

The Sectoral Diversity measure examines how concentrated a state's employment is across all its traded sector industries. We employ an index developed by an economist, Dr. Herfindahl, that adds the sum of the square of each traded sector industry's share of total traded sector income. A "0" score indicates perfect diversification; a score of "1" indicates that all the traded sector activity is in just one industry. So, for example, in comparing two states, each of which has only two traded industries, the state in which the split in total traded sector income is 50/50 is more diverse (a score of .5) than the state where the split is 75/25 (a score of .625).

We also examine how diverse a state's traded sector industries act, in a measure we call Dynamic Diversity. That is, in an economy that has dynamic diversity, when one industry is declining, others should be growing or stable. We are, therefore, interested in the diversity of employment change, which provides a measure of protection against downside risk — in other words, we don't want to see all of a state's major industries declining at the same time. Our attention is again focused on traded sector industries, since these are the industries that generate wealth in a state.

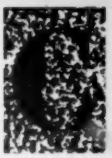
To estimate Dynamic Diversity, we attempt to measure the extent of similarity in employment change from industry to industry. Such a similarity in change is known in statistical terms as "covariance." When employment change is diverse, there is a significant amount of negative covariance between industries — so that when one industry is declining, another is growing, and vice-versa.

Obviously, it is important to adjust for the size of each industry, so our measure assigns an industry weight based on the percentage of traded sector employment it holds. The measure also takes into account the actual percentage change in employment in each industry — the higher the percentage, the greater the impact. So if two key industries both decline significantly, the measure is more unfavorably affected than if they both decline a small amount.

To calculate Dynamic Diversity, we use these specific steps. First, the list of each state's traded sector industries is determined by doing two things:

- For every possible pair of the top twelve traded sector industries, a score is developed. The score is the covariance of employment change in those industries between 1984 and 1989, multiplied by the weight (based on employment size of sector) of one industry times the weight of the other.
- The score for every pair of industries is then summed to get the state's raw Dynamic Diversity score.

A weakness with this diversity measure is that it penalizes states in which every traded industry is growing. In fast-growth states where many sectors are currently enjoying substantial gains, it is not clear that these industries will also *decline* together. Consequently, we make adjustments to counter this bias. For the states in which the overwhelming majority of traded sector industries are growing, and whose major industries are not obviously linked (for example, hotels and machinery — as opposed to hotels and entertainment), we assign a score of "0." The growing states whose scores were adjusted are Alaska, Arizona, California, Florida, Oregon and Washington. (Please note that Ohio scores a "true 0.")



Minority and Women Business Ownership Data

	Business Ownership Black		Business Ownership Hispanic		Business Ownership Women		TOTAL 3 pts. min.	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Alabama	3.73	40	2.63	40	6.32	42	122	44
Alaska	8.89	7	7.77	1	15.36	1	9	1
Arizona	6.61	10	4.59	18	9.02	14	42	10
Arkansas	3.72	41	4.64	15	7.51	28	84	26
California	6.25	11	4.37	23	8.24	18	52	16
Colorado	6.12	13	4.34	25	12.03	4	42	10
Connecticut	5.31	20	2.50	41	7.71	26	87	30
Delaware	4.79	26	2.87	36	7.89	23	85	29
Florida	5.87	14	7.11	2	10.09	7	23	5
Georgia	4.10	29	4.10	22	7.17	29	80	24
Hawaii	4.04	36	1.40	50	7.16	30	116	40
Idaho	14.05	5	4.18	26	9.52	11	42	10
Illinois	2.85	47	2.29	46	5.92	45	133	49
Indiana	4.24	32	3.47	31	8.15	21	84	26
Iowa	5.47	18	5.00	13	7.86	25	56	19
Kansas	4.93	24	5.06	12	8.07	22	58	20
Kentucky	3.59	44	2.77	38	6.39	41	123	45
Louisiana	3.41	45	5.61	7	5.55	46	98	34
Maine	14.83	4	5.54	9	9.49	12	25	7
Maryland	4.24	32	4.36	24	6.42	39	95	32
Massachusetts	4.34	30	2.47	42	6.10	44	116	40
Michigan	2.94	46	3.18	34	5.46	48	128	48
Minnesota	6.82	9	3.88	29	8.21	20	58	20
Mississippi	4.24	32	2.65	39	6.73	36	107	36
Missouri	3.94	38	3.90	28	7.13	31	97	33
Montana	17.21	3	4.68	14	11.58	5	22	4
Nebraska	5.41	19	5.42	10	8.63	17	46	14
Nevada	5.83	15	4.47	19	9.89	8	42	10
New Hampshire	18.35	2	6.32	4	11.13	6	12	3
New Jersey	3.66	42	3.26	33	6.79	35	110	38
New Mexico	7.16	8	6.28	5	9.18	13	26	8
New York	2.78	49	1.91	49	6.32	42	140	50
North Carolina	4.48	27	1.93	48	6.85	33	108	37
North Dakota	5.08	22	2.33	45	9.80	9	76	23
Ohio	3.60	43	2.97	35	5.41	49	127	46
Oklahoma	3.75	39	4.64	15	7.60	27	81	25
Oregon	5.63	17	4.02	27	9.68	10	54	18
Pennsylvania	2.79	48	3.29	32	5.51	47	127	46
Rhode Island	4.01	37	4.41	20	6.60	37	94	31
South Carolina	4.31	31	2.15	47	6.59	38	116	40
South Dakota	9.46	6	6.82	3	8.97	15	24	6
Tennessee	4.11	35	2.46	43	6.41	40	118	43
Texas	5.04	23	6.16	6	7.89	23	52	16
Utah	5.74	16	2.82	37	8.23	19	72	22
Vermont	35.06	1	5.60	8	13.06	2	11	2
Virginia	5.21	21	3.50	30	6.85	33	84	26
Washington	6.19	12	4.41	20	8.67	16	48	15
West Virginia	2.38	50	4.64	15	5.01	50	115	39
Wisconsin	4.47	28	2.45	44	7.01	32	104	35
Wyoming	4.89	25	5.36	11	12.59	3	39	9

APPENDIX

Minority and Women Business Ownership Data Sources

■ ***Business Ownership — Black***

Black-owned businesses with paid employees, as a percent of blacks aged 18-65 (1980), 1987. Score.

Source: U.S. Department of Commerce, Bureau of the Census, *1987 Economic Censuses: Survey of Minority-Owned Business Enterprises - Black* (Washington DC: Government Printing Office, July 1990). Population figures from 1980 U.S. Census. Calculations by CFED.

■ ***Business Ownership — Hispanic***

Hispanic-owned businesses with paid employees, as a percent of Hispanics aged 18-65 (1980), 1982. Score.

Source: U.S. Department of Commerce, Bureau of the Census, *1982 Survey of Minority-Owned Business Enterprises: Minority-Owned Businesses - Hispanic* (Washington DC: Government Printing Office, September 1986). Population figures from 1980 U.S. Census. Calculations by CFED.

■ ***Business Ownership — Women***

Women-owned businesses with paid employees, as a percent of women aged 18-65 (1980), 1987. Score.

Source: U.S. Department of Commerce, Bureau of the Census, *1987 Economic Censuses: Women-Owned Businesses* (Washington DC: Government Printing Office, August 1990). Population figures from 1980 U.S. Census. Calculations by CFED.

Appendix D

TAX AND FISCAL SYSTEM INDEX

This Tax and Fiscal System Index comprises the Tax and Fiscal System section of the Governance Subindex in the State Policy Index. It includes three composite measures — Fiscal Stability and Balanced Revenue Sources, Tax Fairness, and Fiscal Equalization — each of which is compiled from its own series of individual factors. We explain them and report the data here.

FISCAL STABILITY AND BALANCED REVENUE SOURCES

A balanced revenue system — one that relies on a variety of taxes — serves several purposes. When revenues are raised by using several different taxes fairly equally, a state is unlikely to place too high a tax burden on any single tax, reducing the possibility that total state revenues will be too severely affected if the base for that single tax suffers a sudden decline. Balancing revenue sources also reduces a state's vulnerability to large revenue fluctuations that occur during recessions, sectoral decline or economic shocks. Since there is no "perfect" tax, a final reason to employ a good mix of taxes is to limit the inequities and inefficiencies that may result from any one tax.

As described below, the "mix" potential in a balanced tax structure is wide enough to offer a state significant discretion in choosing its own mix. By itself, a perfectly-balanced revenue system does not necessarily define the "best" possible tax structure for a state. The ultimate goals for a high quality tax structure also include tax fairness, economic efficiency, administrative efficiency and stable revenue-raising potential; balance is only one aspect.

To measure a balanced revenue system, we evaluate the share of total state and local tax revenues (exclusive of federal aid) provided for by three separate taxes: personal income taxes, general sales taxes, and property taxes.

Points are then assigned based on how well each separate tax compares with an "ideal" range, one that would result in a well balanced and diversified revenue system. Points this year were assigned using FY 1988 U.S. Census data compiled by the Advisory Commission on Intergovernmental Relations (ACIR) according to the following formulas:

- ***Personal Income Tax:*** States receive 25 points if personal income taxes account for 20 to 30 percent of state and local tax revenues. Points are deducted at the rate of two for every percentage point outside this range.
- ***General Sales Tax:*** States receive 25 points if general sales tax revenues account for 20 to 30 percent of state and local tax revenue. Points are deducted at the rate of two for every percentage point outside this range.
- ***Property Tax:*** States receive 25 points if general property tax revenues account for 20 to 30 percent of state and local tax rev-

enue. Points are deducted at the rate of two for every percentage point outside this range.

Since business investments represent long-term commitments to an area, an important consideration for businesses investing in an area is the likelihood that the quality of services they pay for through taxation — as well as the level of taxation — will remain stable over time. In addition, with the decline in federal aid and the increased vulnerability of state economies to recession and sectoral decline, states must now pay greater attention to fiscal stability.

To handle fiscal shocks without resorting to tax increases and service cuts, states need to have reserve funds available. Fiscal stability is also enhanced when spending — both direct spending and tax expenditures — is subject to close scrutiny and control. Therefore, the fiscal stability component of this tax measure is based on the presence and size of state "rainy day" reserve funds that address revenue shortfalls.

■ ***Rainy Day Fund:*** States receive 10 points if they have a rainy day fund; three more points are added for every percentage point up to 5 percent of general revenue in their rainy day fund — allowing for a maximum total of 25 points.

TAX FAIRNESS

States need to be concerned with tax fairness from two perspectives: treating taxpayers who are in the same circumstances equally — *horizontal equity* — and tailoring tax burdens to the ability to pay — *vertical equity*.

Horizontal equity reinforces the neutrality of the tax system by minimizing the favorable treatment of certain economic activities or certain types of taxpayers. Tax fairness can therefore foster a sound business climate by buttressing government's capacity to deliver necessary services, and by placing all businesses on a "level playing field." In addition, a fair tax policy reduces taxes for taxpayers with limited income and shields the working poor and moderate income families from a regressive tax system. Thus, fairness helps build political credibility for state and local governments, mitigating individual and business taxpayers' perceptions that the tax system may benefit others at their own expense.

Five measures of tax fairness are included in this year's Index:

■ ***Sales Tax Exemption for Food:*** Exempting food from the sales tax base is a significant step states can take to ensure that the burden of sales taxes do not unfairly affect low- and moderate-income families. If states exempt food, they receive 10 points. States that have no sales tax receive 10 points.

■ ***Sales and Excise Tax Burdens on Low-Income Families:*** This measure examines the level or burden of sales and excise taxes as a percent of income for low-income families. Low-income is defined for this measure as the poorest 20 percent of all families in the state. The lower the burden, the higher the score. The maximum number of points a state can receive is 25. States that do not have a sales tax receive 25 points.

■ ***Personal Income Tax Progressivity:*** This measure is based on a comparison of the personal income tax burden for the top 1 percent of all taxpayers compared to the average tax burden for all taxpayers. The more progressive a state's personal income tax is, the higher the share of taxes paid by the top income taxpayers as compared to the average. The maximum number of points is 25, and states that have no personal income tax receive no points.

■ ***Income Tax Threshold:*** This measure examines the income level at which state residents — specifically a family of four with two wage earners — begin paying taxes. The maximum number of points is 20; the higher the income threshold, the more points a state receives. No points are given to states without a personal income tax.

■ ***Property Tax Circuit Breaker:*** A state receives 20 points if it has a state-financed property tax circuit breaker available to all taxpayers, 15 points if it's available only to renters and homeowners, and 10 points if available only to the elderly and/or disabled.

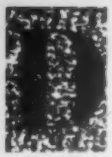
FISCAL EQUALIZATION

State policies that promote equal fiscal capacity among local governments are crucial for a sound business climate. These policies increase the ability of all commu-

nities to provide a sufficient level and quality of services to firms and individuals. Furthermore, they reduce the potential that large property tax differentials between nearby communities will influence residential and firm location choices. More importantly, equalizing state fiscal aid can alleviate financial stress and high tax burdens in urban centers that have large service needs but low taxable wealth.

We measure fiscal equalization by the extent to which state governments finance key service costs and provide revenue sharing aid to communities. Scores were based on FY 1988 Census Bureau data compiled by the Advisory Committee on Intergovernmental Relations according to the following formula:

- ***Welfare:*** States receive .15 points for every percentage point of total state and local welfare costs assumed by state government, up to a maximum of 20 points.
- ***Health and Hospital:*** States receive .15 points for every percentage point of total state and local health and hospital costs assumed by state government up to a maximum of 20 points.
- ***Local Education:*** States receive 1 point for every percentage point of total state and local K-12 education costs assumed by state government between 30 and 70 percent, with a maximum of 40 points.
- ***Other State Aid:*** States receive 1 point for every percentage point by which its other general revenue contributions to local governments exceed the U.S. average (16.1%), up to a maximum score of 20 points.



APPENDIX

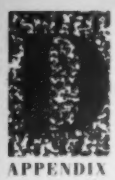
Tax and Fiscal System Data

FISCAL STABILITY AND BALANCED REVENUE SOURCES

	Personal Income Tax 25 pts. max.		General Sales Tax 25 pts. max.		Property Tax 25 pts. max.		Rainy Day Fund 25 pts max.		SUBTOTAL 100 pts. max.	
	%/rev.	Points	%/rev.	Points	%/rev.	Points	%/rev.	Points	Points	Rank
Alabama	20.89	25.0	30.52	24.0	11.59	8.2	0.0	10.0	67.1	23
Alaska	0.02	0.0	2.99	0.0	35.05	14.9	1.2	13.6	28.5	46
Arizona	14.54	14.1	34.76	15.5	31.12	24.8	none	0.0	52.3	32
Arkansas	22.40	25.0	32.93	19.1	18.05	21.1	none	0.0	65.2	25
California	23.32	25.0	25.69	25.0	27.88	25.0	3.1	19.3	94.3	6
Colorado	20.85	25.0	25.80	25.0	35.82	13.4	2.3	16.9	80.3	17
Connecticut	4.77	0.0	26.91	25.0	39.94	5.1	0.0	10.0	40.1	43
Delaware	32.71	19.6	0.00	0.0	13.97	12.9	5.3	25.0	57.5	30
Florida	0.00	0.0	36.57	11.9	32.52	20.0	1.6	14.8	46.6	39
Georgia	25.29	25.0	27.06	25.0	26.62	25.0	0.0	10.0	85.0	11
Hawaii	25.23	25.0	37.09	10.8	14.27	13.5	none	0.0	49.4	34
Idaho	22.24	25.0	25.99	25.0	28.30	25.0	3.8	21.4	96.4	4
Illinois	15.28	15.6	24.33	25.0	35.22	14.6	none	0.0	55.1	31
Indiana	24.44	25.0	29.50	25.0	30.94	23.1	6.7	25.0	98.1	2
Iowa	22.68	25.0	18.45	21.9	38.55	7.9	0.0	10.0	64.8	27
Kansas	19.76	24.5	23.68	25.0	34.82	15.4	none	0.0	64.9	26
Kentucky	27.15	25.0	20.09	25.0	17.18	19.4	0.5	11.5	80.9	16
Louisiana	9.83	4.7	38.94	7.1	16.17	17.3	none	0.0	29.1	45
Maine	25.15	25.0	22.29	25.0	31.69	21.6	0.0	10.0	81.6	13
Maryland	36.96	11.1	14.72	14.4	24.24	25.0	2.0	16.0	66.5	24
Massachusetts	31.32	22.4	15.89	16.8	31.98	21.0	0.0	10.0	70.2	21
Michigan	22.75	25.0	16.77	18.5	38.02	9.0	4.1	22.3	74.8	20
Minnesota	29.36	25.0	18.88	22.8	30.01	25.0	7.7	25.0	97.8	3
Mississippi	12.39	9.8	35.35	14.3	24.54	25.0	.9	12.7	61.8	28
Missouri	24.02	25.0	31.85	21.3	21.57	25.0	0.0	10.0	81.3	15
Montana	19.09	24.4	0.00	0.0	43.52	0.0	none	0.0	24.4	48
Nebraska	17.32	19.6	20.96	25.0	41.38	2.2	none	0.0	46.9	36
Nevada	0.00	0.0	31.67	21.7	23.06	25.0	none	0.0	46.7	38
New Hampshire	1.87	0.0	0.00	0.0	63.61	0.0	4.5	23.5	23.5	49
New Jersey	14.94	14.9	18.33	21.7	42.08	0.8	0.0	10.0	47.4	35
New Mexico	13.69	12.4	39.53	5.9	11.07	7.1	0.0	10.0	35.5	44
New York	29.86	25.0	19.43	23.9	29.30	25.0	0.7	12.1	86.0	10
North Carolina	28.71	25.0	24.42	25.0	20.77	25.0	1.9	15.7	90.7	8
North Dakota	12.31	9.6	23.08	25.0	30.13	24.7	4.0	22.0	81.3	14
Ohio	29.02	25.0	21.46	25.0	28.14	25.0	3.0	19.0	94.0	7
Oklahoma	18.31	21.6	26.74	25.0	18.91	22.8	5.1	25.0	94.4	5
Oregon	28.95	25.0	0.00	0.0	47.14	0.0	none	0.0	25.0	47
Pennsylvania	23.01	25.0	19.69	23.5	26.99	25.0	1.1	13.3	86.8	9
Rhode Island	21.29	25.0	21.00	25.0	38.37	8.3	0.4	11.2	69.5	22
South Carolina	24.59	25.0	26.92	25.0	23.91	25.0	4.6	23.8	98.8	1
South Dakota	0.02	0.0	34.67	15.7	40.73	3.5	none	0.0	19.2	50
Tennessee	1.31	0.0	45.79	0.0	21.94	25.0	2.6	17.8	42.8	40
Texas	0.00	0.0	29.92	25.0	38.66	7.7	0.0	10.0	42.7	41
Utah	25.84	25.0	29.01	25.0	27.41	25.0	0.0	10.0	85.0	12
Vermont	19.43	23.9	11.90	8.8	40.27	4.5	1.4	14.2	51.3	33
Virginia	27.18	25.0	15.63	16.3	28.12	25.0	0.0	10.0	76.3	19
Washington	0.00	0.0	48.43	0.0	29.11	25.0	3.9	21.7	46.7	37
West Virginia	17.34	19.7	23.64	17.3	18.87	22.7	none	0.0	59.7	29
Wisconsin	25.30	25.0	19.37	23.7	35.16	14.7	1.0	13.0	76.4	18
Wyoming	0.00	0.0	19.31	23.6	14.74	0.0	2.9	18.7	42.3	42

TAX FAIRNESS

Sales Tax Food Exemption 10 pts. max.		Low-Income Excise Burden 25 pts. max.		Income Tax Progressivity 25 pts. max.		Income Tax Threshold 20 pts. max.		Property Tax Circuit Breaker 20 pts. max.		SUBTOTAL 100 pts. max.		
Exempt?	Points	%/Inc.	Points	Ratio	Points	Income	Points	Type	Points	Points	Rank	
no	0	8.4	6.0	1.037	6.5	4,500	5.6	none	0	18.1	46	Alabama
no sales tax	10	2.9	24.5	1.000	1.5	no income tax	0.0	none	0	36.0	39	Alaska
yes	10	7.8	8.0	1.724	21.0	15,500	18.4	elderly,renters	20	77.4	4	Arizona
no	0	7.3	11.5	1.529	18.0	5,600	6.4	elderly	10	45.9	27	Arkansas
yes	10	6.5	16.0	1.842	22.5	18,100	20.0	disabled,elderly	10	78.5	3	California
yes	10	6.7	14.0	1.219	9.5	13,700	17.2	disabled,elderly	10	60.7	17	Colorado
yes	10	6.1	19.5	3.000	25.0	no income tax	0.0	disabled,elderly	10	64.5	15	Connecticut
no sales tax	10	3.0	24.0	1.475	16.5	8,600	9.6	none	0	60.1	19	Delaware
yes	10	7.2	12.0	1.000	1.5	no income tax	0.0	none	0	23.5	45	Florida
no	0	7.4	10.5	1.237	10.5	9,000	10.4	none	0	31.4	42	Georgia
no	0	6.1	19.5	1.531	18.5	5,900	6.8	all renters	15	59.8	20	Hawaii
no	0	7.8	8.0	1.512	17.5	13,700	16.8	disabled,elderly	10	52.3	24	Idaho
yes	10	8.3	6.5	1.080	7.5	4,000	5.2	disabled,elderly	10	39.2	34	Illinois
yes	10	6.2	17.5	1.032	6.0	4,000	4.8	none	0	38.3	35	Indiana
yes	10	6.1	19.5	1.333	12.0	8,300	9.2	disabled,elderly	10	60.7	18	Iowa
yes	10	6.5	16.0	1.444	16.0	13,500	14.0	disabled,elderly	10	66.0	12	Kansas
yes	10	7.4	10.5	0.982	1.0	5,000	6.0	none	0	27.5	44	Kentucky
yes	10	10.6	1.5	1.500	17.0	11,900	12.0	none	0	40.5	31	Louisiana
yes	10	7.1	13.0	1.800	22.0	13,000	13.6	owners, renters	20	78.6	2	Maine
yes	10	6.1	19.5	1.130	8.5	14,000	17.6	owners, elderly	20	75.6	6	Maryland
yes	10	4.1	22.5	1.407	15.0	12,000	13.2	none	0	60.7	16	Massachusetts
yes	10	5.4	20.0	1.100	8.0	7,200	7.6	owners, renters	20	65.6	13	Michigan
yes	10	6.6	14.5	1.348	13.5	13,700	16.0	owners, renters	20	74.0	7	Minnesota
no	0	9.6	3.0	1.609	19.0	15,900	18.8	none	0	40.8	30	Mississippi
no	0	7.5	8.5	1.057	7.0	8,700	10.0	elderly	10	35.5	40	Missouri
no sales tax	10	3.3	23.5	1.758	21.5	6,500	7.2	elderly	10	72.2	10	Montana
yes	10	7.4	10.5	1.625	19.5	13,700	15.6	none	0	55.6	23	Nebraska
yes	10	6.5	16.0	1.000	1.5	no income tax	0.0	elderly	10	37.5	36	Nevada
no sales tax	10	3.4	23.0	1.000	1.5	no income tax	0.0	none	0	34.5	41	New Hampshire
yes	10	5.1	21.5	1.909	23.0	4,000	4.4	none	0	58.9	21	New Jersey
no	0	9.4	4.0	2.067	24.0	12,000	12.8	elderly	10	50.8	25	New Mexico
yes	10	7.3	11.5	1.339	13.0	14,100	18.0	owners, renters	20	72.5	9	New York
no	0	8.0	7.0	1.350	14.0	13,700	16.4	none	0	37.4	37	North Carolina
yes	10	8.5	5.5	2.111	24.5	13,700	15.2	disabled,elderly	10	65.2	14	North Dakota
yes	10	6.7	14.0	1.333	12.5	10,400	11.6	disabled,elderly	10	58.1	22	Ohio
no	0	9.6	3.5	1.353	14.5	9,600	11.2	disabled,elderly	10	39.2	33	Oklahoma
no sales tax	10	2.1	25.0	1.278	11.5	9,300	10.8	owners, renters	20	77.3	5	Oregon
yes	10	5.1	21.5	0.862	0.5	8,000	8.4	disabled,elderly	10	50.4	26	Pennsylvania
yes	10	7.1	13.0	1.724	20.5	16,300	19.6	disabled,elderly	10	73.1	8	Rhode Island
no	0	7.4	10.5	1.432	15.5	13,700	14.8	none	0	40.8	29	South Carolina
no	0	9.8	2.5	1.000	1.5	no income tax	0.0	disabled,elderly	10	14.0	47	South Dakota
no	0	10.8	1.0	1.000	1.5	no income tax	0.0	disabled,elderly,vets.	10	12.5	49	Tennessee
yes	10	10.8	1.0	1.000	1.5	no income tax	0.0	none	0	12.5	50	Texas
no	0	9.2	4.5	1.231	10.0	11,600	12.4	elderly	10	36.9	38	Utah
yes	10	4.9	22.0	1.964	23.5	16,300	19.2	owners, renters	20	94.7	1	Vermont
no	0	5.3	20.5	1.257	11.0	7,400	8.0	none	0	39.5	32	Virginia
yes	10	10.1	2.0	1.000	1.5	no income tax	0.0	none	0	13.5	48	Washington
no	0	9.0	5.0	1.676	20.0	8,000	8.8	elderly	10	43.8	28	West Virginia
yes	10	6.2	17.5	1.191	9.0	13,600	14.4	owners, renters	20	70.9	11	Wisconsin
no	0	6.3	16.5	1.000	1.5	no income tax	0.0	disabled,elderly	10	28.0	43	Wyoming

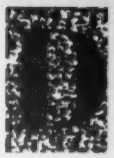


APPENDIX

Tax and Fiscal System Data

FISCAL EQUALIZATION

	Welfare 20 pts. max.		Health & Hospital 20 pts. max.		K-12 Education 40 pts. max.		Other State Aid 20 pts. max.		SUBTOTAL 100 pts. max.		INDEX TOTAL 300 pts. max.	
	%	Points	%	Points	%	Points	%	Points	Points	Rank	Points	Rank
Alabama	92.88	18.58	46.03	9.21	64.48	34.48	11.56	0.00	62.26	17	147.5	36
Alaska	98.43	19.69	61.29	12.26	68.86	38.86	25.96	9.85	80.65	1	145.2	38
Arizona	71.37	14.27	45.23	9.05	43.55	13.55	25.54	9.43	46.31	34	176.0	24
Arkansas	97.87	19.57	53.72	10.74	59.39	29.39	19.27	3.16	62.88	16	174.0	25
California	92.86	18.57	47.41	9.48	72.10	40.00	15.30	0.00	68.05	13	240.9	1
Colorado	80.44	16.09	50.26	10.05	40.65	10.65	6.89	0.00	36.79	45	177.8	23
Connecticut	88.50	17.70	93.98	18.80	34.52	4.52	15.02	0.00	41.02	42	145.6	37
Delaware	99.87	19.97	99.58	19.92	71.47	40.00	3.21	0.00	79.89	2	197.5	9
Florida	88.41	17.68	43.15	8.63	60.58	30.58	13.08	0.00	56.89	22	127.0	46
Georgia	93.74	18.75	24.47	4.89	58.51	28.51	4.14	0.00	52.16	27	168.6	30
Hawaii	98.64	19.73	97.15	19.43	100.00	40.00	8.07	0.00	79.16	3	188.3	19
Idaho	73.50	14.70	21.83	4.37	66.00	36.00	19.81	3.70	58.77	21	207.5	5
Illinois	93.34	18.67	54.39	10.88	41.58	11.58	13.70	0.00	41.13	41	135.4	40
Indiana	93.47	18.69	42.52	8.50	53.72	23.72	24.08	7.97	58.89	20	195.3	12
Iowa	81.98	16.40	42.38	8.48	44.51	14.51	22.81	6.70	46.08	35	171.6	29
Kansas	94.12	18.82	52.43	10.49	42.48	12.48	8.26	0.00	41.79	40	172.7	27
Kentucky	93.70	18.74	58.36	11.67	72.41	40.00	14.65	0.00	70.41	6	178.8	22
Louisiana	92.95	18.59	51.40	10.28	60.26	30.26	8.41	0.00	59.13	19	128.7	45
Maine	96.55	19.31	77.04	15.41	45.17	15.17	14.62	0.00	49.89	28	210.1	4
Maryland	97.03	19.41	100.00	20.00	34.39	4.39	20.74	4.63	48.43	30	190.5	16
Massachusetts	97.94	19.59	71.71	14.34	42.16	12.16	41.99	20.00	66.09	14	197.0	10
Michigan	92.83	18.57	73.81	14.76	32.25	2.25	27.91	11.80	47.38	32	187.8	20
Minnesota	55.97	11.19	49.02	9.80	58.48	28.48	23.37	7.26	56.74	23	228.5	2
Mississippi	88.67	17.73	27.21	5.44	65.00	35.00	27.18	11.07	69.24	11	171.8	28
Missouri	94.68	18.94	50.09	10.02	45.01	15.01	8.10	0.00	43.96	38	160.8	33
Montana	81.29	16.26	66.77	13.35	37.77	7.77	8.40	0.00	37.38	44	134.0	41
Nebraska	88.91	17.78	48.09	9.62	22.48	0.00	17.16	1.05	28.45	49	130.9	43
Nevada	73.00	14.60	29.79	5.96	67.93	37.93	29.19	13.08	71.57	5	155.7	34
New Hampshire	84.77	16.95	96.00	19.20	8.10	0.00	13.09	0.00	36.15	46	94.2	48
New Jersey	89.25	17.85	72.63	14.53	39.91	9.91	19.86	3.75	46.04	36	152.3	35
New Mexico	83.75	16.75	73.04	14.61	76.16	40.00	23.90	7.79	79.15	4	165.4	31
New York	86.12	17.22	53.44	10.69	48.80	18.80	15.57	0.00	46.71	33	205.2	7
North Carolina	91.92	18.38	58.77	11.75	76.16	40.00	15.10	0.00	70.14	7	198.2	8
North Dakota	90.34	18.07	93.61	18.72	54.66	24.66	20.66	4.55	66.00	15	212.5	3
Ohio	81.61	16.32	55.04	11.01	46.16	16.16	16.41	0.30	43.79	39	195.9	11
Oklahoma	98.37	19.67	47.99	9.60	55.73	25.73	11.35	0.00	55.00	25	188.6	18
Oregon	90.79	18.16	63.11	12.62	25.89	0.00	15.89	0.00	30.78	47	133.1	42
Pennsylvania —	98.68	19.74	80.80	16.96	46.05	16.05	12.90	0.00	52.75	26	189.9	17
Rhode Island	98.73	19.75	99.30	19.86	38.79	8.79	9.84	0.00	48.39	31	190.9	15
South Carolina	74.00	14.80	53.47	10.69	59.92	29.92	13.98	0.00	55.41	24	195.0	13
South Dakota	61.66	12.33	73.22	14.64	29.16	0.00	9.98	0.00	26.98	50	60.2	50
Tennessee	90.54	18.11	34.99	7.00	44.11	0.00	20.84	4.73	29.84	48	85.1	49
Texas	91.73	18.35	41.49	8.30	47.44	17.44	1.94	0.00	44.08	37	99.3	47
Utah	98.97	19.79	82.53	16.51	63.15	33.15	7.54	0.00	69.45	9	191.4	14
Vermont	99.28	19.86	93.46	18.69	38.80	0.00	11.34	0.00	38.55	43	184.6	21
Virginia	92.35	18.47	74.64	14.93	45.95	15.95	14.46	0.00	49.35	29	165.1	32
Washington	121.11	20.00	47.19	9.44	74.72	40.00	14.57	0.00	69.44	10	129.6	44
West Virginia	99.73	19.95	49.66	9.93	70.23	40.00	6.78	0.00	69.88	8	173.4	26
Wisconsin	66.12	13.22	65.18	13.04	43.56	13.56	36.16	20.00	59.82	18	207.2	6
Wyoming	102.67	20.00	38.62	7.72	50.34	20.34	37.17	20.00	68.07	12	138.4	39



APPENDIX

Tax and Fiscal System Data Sources

Note: All Tax and Fiscal System measures were calculated by Corporation for Enterprise Development, based on the U.S. Census Bureau data for FY 1988, contained in the Advisory Commission on Intergovernmental Relations' *State-Local Government Finance Database*, except for the following:

■ ***Rainy Day Fund***

Whether a state has a rainy day fund, and size of fund relative to state appropriations, projected for FY 1990. Score.
Source: National Conference of State Legislatures, *State Budget and Tax Actions in 1990* (Denver: National Conference of State Legislatures, September, 1990).

■ ***Sales Tax Exemption for Food***

States that exempt food from the sales tax, 1989.
Source: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1990* (Washington DC: Advisory Commission on Intergovernmental Relations, January 1990).

■ ***Sales and Excise Tax Burden on Low-Income Families***

Percent of income spent on sales and excise taxes by the poorest 20 percent of a state's population, 1990.
Source: Citizens for Tax Justice, unpublished tables, Washington DC, December 1990.

■ ***Personal Income Tax Progressivity***

Ratio of income tax burden for top 1% of all taxpayers to average income tax burden for all taxpayers, 1990.
Source: Same as Sales and Excise Tax Burden on Low-Income Families.

■ ***Income Tax Threshold***

State income tax thresholds for two-parent families of four, 1990.
Source: Center on Budget and Policy Priorities, unpublished data, Washington DC, April 1990.

■ ***Property Tax Circuit Breaker***

States with a comprehensive property tax circuit breaker, 1989.
Source: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, Volume 1: Budget Processes and Tax Systems* (Washington DC: Advisory Commission on Intergovernmental Relations, January 1990).

Appendix E

TRANSFER PAYMENT INVESTMENT INDEX

This Transfer Payment Investment (TPI) Index underlies the TPI measure in the Workforce Development Subindex of the State Policy Index. The TPI Index attempts to measure the extent to which a state uses income maintenance payments as investments in the economic self-sufficiency of the individuals who receive them.

With the recent enactment of federal welfare reform legislation, much has occurred in this area of state policy. The federal legislation now requires states to undertake many of the transitional and training services that this Index has measured. As a result, this year's TPI Index is more narrowly focused. Specifically, we examine how states are investing in welfare recipients, as well as how they are using unemployment compensation (UI) to invest in people. In general, we look for signs that there is a state effort to help increase the capacity of welfare and UI recipients to help themselves, and a commitment to provide the funds, programs and services necessary to enable them to become more productively active in the economy.

The Transfer Payment Investment Index examines five aspects of welfare-to-work and Unemployment Insurance work transition.

- ***Welfare Self-Employment Demonstration:*** These demonstration projects permit the limited continuation of AFDC grants while recipients are assisted in starting their own micro-enterprises, typically through entrepreneurial training, technical assistance and seed capital loans. We credit states that have applied for waivers from AFDC regulations to undertake such projects.

- ***AFDC Maximum Family Benefit:*** Without the provision of adequate AFDC assistance, recipients have such poor living standards that efforts to initiate effective TPI strategies are hampered. Here we gauge the adequacy of AFDC benefits from state to state by measuring AFDC benefits for a family of four as a percent of the state's per capita income.

- ***Short-Time Compensation:*** Several states permit partial UI payments when workers are reduced from full-time to part-time work. While not an employment and training activity, such work-sharing efforts maintain an important employment link for workers, and minimize the disruptive effects of temporary business cycle downturns.

- ***UI Self-Employment Demonstration:*** A few states are permitting or planning to permit UI recipients, on a demonstration basis, to receive their UI funds while starting new businesses. They also offer participants business assistance and access to credit through cooperating state resources, both public and private.

- ***Employment and Training Diversion:*** Some states have channeled a portion of their UI tax receipts into special training funds, and have targeted these training dollars to those who are unemployed, threatened with unemployment, or underemployed.

Transfer Payment Investment Data

	Welfare Self-Employment Demonstration	AFDC Maximum Family Benefit		Short-Time Compensation	U.I. Self-Employment Demonstration	Employment & Training Diversion	TOTAL 5 pts. min.	
	Points	% p.c. inc.	Points	Points	Points	Points	Points	Rank
Alabama		50	14	50	50	50	250	50
Alaska		50	55	1	50	50	201	25
Arizona		50	28	32	■ 1	50	183	14
Arkansas		50	24	42	■ 1	50	193	19
California		50	49	3	■ 1	50	■ 1	105	4
Colorado		50	31	26	50	50	50	228	40
Connecticut	■ 1	39	17	50	50	50	168	10
Delaware		50	27	34	50	50	■ 1	185	15
Florida		50	24	42	■ 1	50	50	193	19
Georgia		50	25	40	50	50	50	240	46
Hawaii		50	47	5	50	50	50	205	27
Idaho		50	32	26	50	50	50	226	39
Illinois	■ 1	26	37	50	50	50	188	16
Indiana		50	29	31	50	50	50	231	43
Iowa	■ 1	40	14	50	50	50	165	8
Kansas		50	37	19	■ 1	50	50	170	12
Kentucky		50	25	40	50	50	50	240	46
Louisiana		50	23	45	■ 1	50	50	196	22
Maine		50	44	9	50	50	50	209	29
Maryland	■ 1	28	32	■ 1	50	50	134	5
Massachusetts		50	36	20	■ 1	■ 1	■ 1	73	2
Michigan	■ 1	46	7	50	50	50	158	6
Minnesota	■ 1	45	8	50	50	50	159	7
Mississippi	■ 1	16	49	50	50	50	200	24
Missouri		50	26	37	■ 1	50	50	188	16
Montana		50	40	14	50	50	50	214	33
Nebraska		50	36	20	50	50	50	220	34
Nevada		50	26	37	50	50	■ 1	188	16
New Hampshire		50	35	24	50	50	50	224	37
New Jersey		50	27	34	50	50	50	234	44
New Mexico		50	30	30	50	50	50	230	42
New York		50	39	17	■ 1	50	50	168	10
North Carolina		50	24	42	50	50	■ 1	193	9
North Dakota		50	48	4	50	50	50	204	26
Ohio		50	31	28	50	50	50	228	40
Oklahoma		50	36	20	50	50	50	220	34
Oregon		50	40	14	■ 1	50	50	165	8
Pennsylvania		50	36	20	50	50	50	220	34
Rhode Island		50	42	11	50	50	50	211	31
South Carolina		50	23	45	50	50	50	245	48
South Dakota		50	41	12	50	50	50	212	32
Tennessee		50	18	47	50	50	50	247	49
Texas		50	18	47	■ 1	50	50	198	23
Utah		50	43	10	50	50	50	210	30
Vermont		50	54	2	■ 1	50	■ 1	104	3
Virginia		50	27	34	50	50	50	234	44
Washington		50	41	12	■ 1	■ 1	■ 1	65	1
West Virginia	■ 1	32	26	50	50	50	177	13
Wisconsin		50	47	5	50	50	50	205	27
Wyoming		50	34	25	50	50	50	225	38

APPENDIX

Transfer Payment Investment Data Sources

■ ***AFDC Self-Employment Demonstration***

States that have applied for waivers to do self-employment demonstrations for welfare recipients, or that are doing such demonstrations through other means, 1990.

Source: U.S. Department of Health and Human Services, Family Support Administration, Office of Family Assistance, staff interview, Washington DC, January 1991.

■ ***AFDC Maximum Family Benefit***

AFDC benefit level for a family of four as a percent of per capita income, January 1989.

Source: Brizius & Foster and State Policy Research, Inc., *States in Profile: The State Policy Reference Book 1990, Second Edition* (Alexandria, VA: State Policy Research, Inc., 1990).

■ ***Short-Time Compensation***

States that permit partial UI payments for workers who are reduced from full-time to part-time work, 1990.

Source: U.S. Department of Labor, Office of Labor-Management Services, staff interview, Washington DC, October 1990.

■ ***UI Self-Employment Demonstration***

States that have allowed or are planning to allow, on a demonstration basis, UI recipients to continue to receive and use UI funds while pursuing self-employment, 1990.

Source: U.S. Department of Labor, Office of Unemployment Insurance, staff interview, Washington DC, January 1991.

■ ***Employment and Training Diversion***

States that have diverted UI funds to support employment and training, 1990.

Source: Evelyn Ganzglass and Maria Heidcamp, "State Strategies to Train a Competitive Workforce," Center for Policy Research paper, National Governors' Association, 1988; U.S. Department of Labor, Office of Legislation and Actuarial Services, staff interview, Washington DC, January 1991.

Alabama

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	D	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	C	B	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	C	C	D	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	D	A	D	D	A	C	D

Alaska

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	B	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	C	D	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	C	D	C	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	C	D	B	C	A	C	C

Arizona

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	D	D	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
F	A	C	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	B	C	B	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	D	D	D	D	A	C	D

Arkansas

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	F	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	D	C	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	infra./Amenity Resources Subindex	1991 INDEX GRADE
D	F	F	D	F

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	C	A	B	B	C	D	C

California

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	B	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	A	B	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	A	A	B	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	A	D	A	C	A	A	A

Colorado

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	C	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	B	A	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	A	D	A	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	F	B	B	C	C	D	C

Connecticut

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	A	A	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	C	C	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	A	A	C	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	A	B	D	A	A	B	A

Delaware

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	A	C	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	B	F	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	A	B	A	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	C	C	B	D	C	B	C

Florida

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	D	B	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
F	A	B	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	D	C	C	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	A	C	F	D	C	A	C

Georgia

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	C	D	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	A	C	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	D	B	C	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	D	C	D	F	A	C	D

Hawaii

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	A	B	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	B	F	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	C	B	A	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	A	B	D	C	F	C	C

Idaho

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	D	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	C	D	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	C	C	C	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	D	D	A	F	C	D	D

Illinois

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	B	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	F	B	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	C	A	C	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	C	B	C	B	A	B	C

Indiana

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	C	A	C

BUSINESS VITALITY INDEX

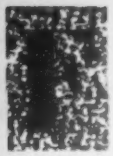
Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	D	B	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	C	C	C	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	C	A	A	A	C	D	A



APPENDIX

Iowa

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	C	B	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	D	D	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	B	D	D	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	A	A	A	A	A	B	A

Kansas

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	C	A	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	C	B	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	C	D	C	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	C	A	A	B	C	D	B

Kentucky

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	D	F	F

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	D	A	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
F	F	C	C	F

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	B	B	B	D	F	C	C

Louisiana

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
F	F	F	F

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
F	F	D	F

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
F	D	D	F	F

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
F	C	D	C	A	F	C	F

Maine

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	C	B	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	A	C	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	F	C	D	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	B	C	C	B	C	B	B

Maryland

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	A	B	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	A	C	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	A	C	A	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
F	A	A	B	A	A	A	A

Massachusetts

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	A	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	D	A	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	A	A	C	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	B	A	D	A	A	B	B

Michigan

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
F	B	B	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	F	C	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	B	B	C	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	C	A	A	A	A	C	A

Minnesota

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	A	C	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	B	C	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	B	A	A	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	B	B	A	A	A	A	A

Mississippi

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	F	F	F

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	C	A	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
F	F	F	F	F

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	A	B	C	C	A	C	B

Missouri

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
F	C	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	D	A	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	C	C	D	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	C	A	B	B	A	B	B

Montana

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	F	C	F

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	C	C	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	D	D	D	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	D	A	D	B	C	D	D

Nebraska

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	C	B	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	C	D	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	D	D	A	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	D	D	F	C	C	F	F

Nevada

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	B	A	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	A	F	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	C	C	B	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	C	F	C	D	A	D	D

New Hampshire

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	A	A	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	A	C	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	C	B	C	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
F	F	D	F	D	C	C	F

New Jersey

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	A	A	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	C	B	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	B	A	B	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	B	A	C	D	C	A	B

New Mexico

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	F	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
F	B	A	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	A	F	C	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	D	B	C	C	C	C	F

New York

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	B	F	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	D	A	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	A	A	D	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	A	A	C	A	A	A	A

North Carolina

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	C	C	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
A	B	B	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	C	A	B	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	A	A	D	D	C	C	C

North Dakota

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	C	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	F	D	F

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	D	D	D	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	F	B	C	B	A	F	C

Ohio

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	C	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	F	C	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	B	B	B	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
A	C	A	B	B	A	C	A

Oklahoma

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	D	C	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
F	D	D	F

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	C	F	C	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	D	A	C	A	A	C	B

Oregon

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	C	A	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	B	C	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	C	B	B	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	B	C	B	C	A	A	B

Pennsylvania

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	A	B	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	C	A	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	B	A	B	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	A	B	D	A	A	C	B

Rhode Island

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	A	A	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	C	C	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	A	A	D	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	C	C	C	B	C	A	B

South Carolina

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	C	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	C	D	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
F	D	D	A	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	B	D	A	C	A	D	C

South Dakota

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	D	B	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	C	C	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	F	B	C	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	F	D	C	C	A	F	F

Tennessee

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	D	C	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	C	B	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
F	D	C	C	D

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
F	C	C	C	C	A	B	C

Texas

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
D	C	D	D

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	B	A	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	B	B	B	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	C	A	F	C	C	F	D

Utah

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	C	A	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	B	A	A

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	A	C	A	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	F	D	A	C	A	F	D

Vermont

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	B	C	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	A	D	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex*	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	C	B	F	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
B	B	D	D	B	C	A	C

Virginia

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
B	B	C	B

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	A	B	B

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
C	C	C	B	B

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
F	C	A	C	D	A	B	C

Washington

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
A	B	C	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	B	C	C

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	B	B	A	A

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	B	C	C	D	A	A	C

West Virginia

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
F	D	F	F

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
C	C	F	F

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
D	D	F	F	F

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assit. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	C	D	F	B	A	D	D

Wisconsin

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	B	A	A

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
B	D	D	D

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
B	B	C	F	C

STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
C	B	B	A	A	A	B	A

Wyoming

ECONOMIC PERFORMANCE INDEX

Employment Subindex	Earnings & Job Quality Subindex	Equity Subindex	1991 INDEX GRADE
C	D	B	C

BUSINESS VITALITY INDEX

Business Competitiveness Subindex	Entrepreneurial Energy Subindex	Structural Diversity Subindex	1991 INDEX GRADE
D	D	F	F

DEVELOPMENT CAPACITY INDEX

Human Resources Subindex	Technology Resources Subindex	Financial Resources Subindex	Infra./Amenity Resources Subindex	1991 INDEX GRADE
A	D	D	A	C

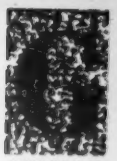
STATE POLICY INDEX

Governance Subindex	Workforce Development Subindex	Technology & Innovation Subindex	International Marketing Subindex	Development Finance Subindex	Local Econ. Dev. Assist. Subindex	Infrastructure and Amenities Subindex	1991 INDEX GRADE
D	D	D	B	A	A	D	C

The 1990 Development Report Card for the States*

	ECONOMIC PERFORMANCE INDEX				BUSINESS VITALITY INDEX				DEVELOPMENT	
	Employment Subindex	Earnings & Job Qlty. Subindex	Equity Subindex	INDEX GRADE	Business Comptvns. Subindex	Entrep. Energy Subindex	Structural Diversity Subindex	INDEX GRADE	Human Resources Subindex	Technology Resources Subindex
Alabama	D	D	D	D	B	C	B	B	D	C
Alaska	F	C	B	C	B	C	D	C	A	B
Arizona	B	C	C	C	D	A	C	C	C	C
Arkansas	C	F	C	D	B	C	B	C	D	F
California	B	B	C	B	C	A	C	B	C	A
Colorado	D	C	C	D	D	B	A	B	A	A
Connecticut	C	A	A	A	A	C	B	B	B	A
Delaware	A	B	A	A	A	B	F	C	C	A
Florida	A	C	C	B	D	A	B	B	D	D
Georgia	B	C	D	C	B	A	B	A	D	D
Hawaii	B	A	A	A	D	B	D	D	B	C
Idaho	C	D	C	C	C	C	D	D	C	C
Illinois	D	B	F	D	B	F	B	C	C	B
Indiana	A	B	B	B	B	C	B	B	C	C
Iowa	C	C	F	C	C	D	D	D	B	C
Kansas	C	C	B	C	D	C	C	D	A	D
Kentucky	D	F	D	F	C	C	A	B	F	F
Louisiana	F	D	F	F	F	D	D	F	F	D
Maine	B	C	A	B	C	A	C	A	C	D
Maryland	B	A	A	A	C	A	B	A	B	A
Massachusetts	B	A	A	A	A	D	B	B	B	A
Michigan	D	B	D	C	A	D	D	C	C	B
Minnesota	A	A	C	B	A	C	C	C	A	B
Mississippi	D	F	D	D	C	C	A	C	F	F
Missouri	C	C	C	C	D	D	A	C	C	C
Montana	F	D	B	D	D	B	D	D	A	D
Nebraska	C	C	C	C	A	D	D	D	B	D
Nevada	A	B	B	A	B	A	F	C	B	C
New Hampshire	A	A	A	A	A	A	C	A	A	C
New Jersey	C	A	A	A	A	C	B	A	C	B
New Mexico	C	F	F	F	F	B	A	C	C	A
New York	C	B	D	C	A	F	A	A	D	A
North Carolina	A	C	C	C	A	C	B	A	D	C
North Dakota	D	D	C	D	F	D	F	F	B	D
Ohio	D	B	B	B	C	F	C	D	D	B
Oklahoma	F	F	D	D	D	D	D	F	C	C
Oregon	C	C	C	C	B	B	C	B	B	C
Pennsylvania	C	A	B	B	C	C	A	B	C	B
Rhode Island	A	A	B	A	B	D	C	C	D	B
South Carolina	B	D	C	C	C	C	C	D	F	F
South Dakota	C	D	D	D	C	C	C	C	B	F
Tennessee	C	D	D	D	C	B	A	A	F	C
Texas	D	C	C	D	D	B	C	C	D	C
Utah	C	C	A	B	F	B	A	C	A	A
Vermont	A	B	A	A	B	A	C	A	A	B
Virginia	A	A	C	B	D	A	A	A	C	B
Washington	B	C	C	C	C	B	C	C	A	A
West Virginia	F	D	F	F	C	C	D	D	D	D
Wisconsin	B	B	B	B	C	F	D	D	B	B
Wyoming	D	D	B	C	D	F	F	F	A	D

* Please note: This is *last year's* Development Report Card. Because Report Card users often contact CFED for the prior year's Index and Subindex grades, we are providing this listing.



CAPACITY INDEX			STATE POLICY INDEX								
Finan. Resources Subindex	Infr./Amty. Resources Subindex	FINAL GRADE	Tax & Reg.† Environ. Subindex	Wrkfrc. Develmnt. Subindex	Tech. & Innov. Subindex	Intrnt'L Mrktg. Subindex	Devmnt. Finan. Subindex	Local Dev. Asst. Subindex	Infra. & Amenities. Subindex	FINAL GRADE	
D	D	D	B	C	B	C	D	A	C	C	**Alabama**
C	C	B	C	F	D	A	C	A	C	C	Alaska
C	B	C	C	D	C	F	F	A	D	F	**Arizona**
F	D	F	F	D	A	A	B	C	D	C	Arkansas
A	C	B	A	A	F	C	C	A	A	B	**California**
C	A	A	B	D	C	C	D	F	C	F	Colorado
A	C	A	D	A	C	B	B	A	A	B	**Connecticut**
B	A	A	D	B	C	B	D	C	B	C	Delaware
D	C	D	C	A	C	C	D	C	A	C	**Florida**
B	C	D	B	D	A	D	D	A	D	C	Georgia
C	A	B	C	A	B	D	D	F	C	C	**Hawaii**
C	D	C	A	D	B	A	D	C	F	C	Idaho
A	B	B	C	C	A	C	B	A	A	B	**Illinois**
C	C	C	B	A	A	B	A	C	D	A	Indiana
F	F	D	B	B	A	B	A	A	C	A	**Iowa**
D	D	D	B	D	A	B	B	C	C	B	Kansas
C	D	F	A	B	A	D	D	F	C	C	**Kentucky**
C	F	F	F	C	D	C	A	F	C	D	Louisiana
C	C	D	A	C	C	A	B	F	B	C	**Maine**
B	B	A	D	A	B	A	B	A	A	A	Maryland
A	B	A	C	C	C	D	A	A	A	B	**Massachusetts**
C	C	C	B	B	A	B	A	A	B	A	Michigan
A	A	A	A	C	A	A	A	C	A	A	**Minnesota**
F	F	F	B	B	C	F	C	C	C	C	Mississippi
C	C	C	A	C	A	D	B	C	B	B	**Missouri**
D	C	C	C	D	C	D	B	C	D	D	Montana
D	A	C	C	D	C	F	C	C	D	F	**Nebraska**
C	C	C	D	D	F	D	D	C	F	F	Nevada
B	D	C	D	F	C	F	D	C	C	F	**New Hampshire**
A	A	A	B	C	A	C	C	C	A	B	New Jersey
D	C	C	C	C	B	C	C	C	C	C	**New Mexico**
A	C	B	A	A	A	C	B	A	A	A	New York
B	B	C	D	B	C	C	D	C	C	D	**North Carolina**
D	F	D	A	F	C	D	B	A	F	D	North Dakota
B	B	C	A	A	A	C	B	C	B	A	**Ohio**
F	D	D	C	B	A	A	A	A	C	A	Oklahoma
B	A	A	C	A	B	C	C	A	B	B	**Oregon**
A	A	A	C	A	B	C	A	A	B	A	Pennsylvania
A	D	B	C	C	B	B	A	C	A	B	**Rhode Island**
D	B	D	C	C	C	C	C	C	D	D	South Carolina
B	D	C	D	F	C	B	D	A	F	D	**South Dakota**
C	C	D	F	C	C	D	C	A	C	D	Tennessee
A	A	B	D	C	B	F	C	C	D	D	**Texas**
D	B	A	B	D	C	B	C	A	F	C	Utah
B	C	B	C	B	D	D	C	C	C	D	**Vermont**
B	B	B	D	C	B	A	D	A	B	B	Virginia
C	A	A	F	B	C	A	F	A	B	C	**Washington**
F	F	F	C	C	D	C	B	A	D	C	West Virginia
C	C	C	A	B	A	B	B	A	B	A	**Wisconsin**
D	B	C	F	F	F	A	A	C	D	D	Wyoming

† In the *1994 Report Card*, this has become part of the *Governance Subindex*.

Quick Guide to the 1991 Development Report Card

Economic Performance Index: 16

Employment Subindex: 17,20-1,25,29

- Long-Term Employment Growth: 21,25,29
- Short-Term Employment Growth: 21,25,29
- Unemployment Rate: 22,25,29
- Unemployment Duration: 22,25,29

Earnings and Job Quality Subindex: 17,20,22,26,29

- Average Annual Pay: 22,26,29
- Average Annual Pay Growth: 22,26,29
- Health Coverage: 22,26,29

Equity Subindex: 17,21,23,26,29

- Poverty Rate: 23,26,29
- Income Distribution: 23,26,29
- Income Distribution Change: 23,26,30
- Rural/Urban Disparity: 23,26,30,108

Environmental, Social and Health Conditions Subindex: 23,27,30

Environmental Quality: 23,27,30

- Air Quality: 23,27,30
- Superfund Dumpsites: 23,27,30
- Hazardous Waste Generation: 23,27,30
- Surface Water Discharge: 23,27,30

Social Conditions: 23,28,30

- Infant Mortality: 23,28,30
- Crime Rate: 23,28,31
- Teen Pregnancy: 23,28,31

Health: 23,28,31

- Heart Disease: 23,28,31
- Cancer Cases: 23,28,31
- Infectious Disease: 23,28,31

Business Vitality Index: 32

Competitiveness of Existing Businesses Subindex: 33,35,37,40,42

- Traded Sector Strength: 37,40,42
- Change in Traded Sector Strength: 37,40,42
- Business Failure: 37,40,42

Entrepreneurial Energy Subindex: 33,36,38,41,42

- New Companies: 38,41,42
- Fast Growing New Companies: 38,41,42
- Minority and Women Business Ownership: 38,41,42,115

Structural Diversity Subindex: 33,36,39,41,43

- Sectoral Diversity: 39,41,43
- Dynamic Diversity: 39,41,43

Development Capacity Index: 44

Human Resources Subindex: 45,48,51,57,61

- High School Graduation: 51,57,61
- Adult Illiteracy: 51,57,61
- High School Education Attainment: 52,57,61
- College Education Attainment: 52,57,61

Technology Resources Subindex: 45,49,52,57,61

- Scientists and Engineers in the Workforce: 52,57,61
- Science and Engineering Graduate Students: 52,57,61
- Patents Issued: 53,57,61
- University Research and Development: 53,57,61
- Federal Research and Development: 53,57,61

Financial Resources Subindex: 45,50,53,59,62

- Commercial Bank Deposits: 54,59,62
- Loans to Deposits: 54,59,62
- Loans to Equity: 54,59,62
- Commercial and Industrial Loans: 54,59,62
- Commercial and Industrial Loans to Total Loans: 54,59,62
- Venture Capital Investments: 54,59,62

Physical Infrastructure and Amenity Resources Subindex: 45,50,54,60,62

- Highway Deficiency: 55,60,62
- Bridge Deficiency: 55,60,62
- Urban Mass Transit Availability: 55,60,62
- Energy Cost: 55,60,62
- Sewage Treatment Needs: 55,60,63
- Urban Housing Cost: 55,60,63
- Health Professional Shortage Areas: 56,60,63
- Tourism Spending: 56,60,63

State Policy Index: 64

Governance Subindex: 65,70,73,86,96

Tax and Fiscal System: 73,86,96,117

- Fiscal Stability and Balanced Revenue Sources: 73,86,96,120
- Tax Fairness: 73,86,96,121
- Fiscal Equalization: 73,86,96,122

Regulatory Reform: 73,86,96

- One-Stop Permit Shops: 73,86,96
- Small Business Regulatory Alternatives: 73,86,96

Liability Reform: 73,86,97

- Liability Modification: 73,86,97
- Punitive Damage Limits: 73,86,97
- Compensatory Award Reduction: 73,86,97

Economic Development Governance: 75,87,97

- Strategic Plan: 75,87,97
- Evaluation: 75,87,97

Workforce Development Subindex: 65,71,75,87,97

Education: 75,87,97

Education Support: 76,87,97

- Pupil Spending, K-12: 76,87,97
- Pupil Spending, Higher Education: 76,87,97
- Average Teacher Salary: 76,87,98
- Beginning Teacher Salary: 76,87,98
- Change in Teacher Salary: 76,87,98

Education Reform: 76,88,98

School Accountability Policies: 76,88,98

- Comprehensive School Performance Indicators: 76,88,98
- School Incentives: 76,88,98

Teacher Policies: 76,88,98

- Alternative Certification: 76,88,98
- Teacher Incentives: 76,88,98
- Teacher Induction: 76,88,98

Student Policies: 76,88,98

- Early Childhood Education Programs: 76,88,98
- High School Math and Science Requirements: 76,88,99
- High School Competency Test Requirement: 76,88,99

Worker Investment: 76,88,99

- State Training Programs: 76,88,99
- Workforce Literacy: 76,88,99
- Labor-Management Assistance: 76,88,99
- Employee Ownership Assistance: 76,88,99
- Transfer Payment Investment: 76,88,99,124

Technology and Innovation Subindex: 65,71,77,89,99

Stimulating Research: 77,89,99

- Research and Development Centers: 77,89,99
- Research and Development Grants: 77,89,100
- Small Business Innovation Research Grants: 77,89,100

Modernizing Companies: 78,89,100

- Technology Transfer: 78,89,100
- Technology Deployment Assistance: 78,89,100
- Business Incubators: 78,89,100

International Marketing Subindex: 65,72,78,90,100

Export Promotion: 78,90,100

- Foreign Trade Offices: 78,90,100
- Trade Seminars: 78,90,100
- Export Finance: 78,90,100
- Trade Staff: 78,90,100
- Trade Shows: 78,90,101
- Trade Missions: 78,90,101
- Multistate Export Promotion Efforts: 78,90,101

Export Information: 78,90,101

- Market Studies: 78,90,101
- Language Bank: 78,90,101
- Trade Newsletters: 78,90,101
- How-to-Export Directory: 78,91,101
- Overseas Agent/Distributor Identification: 78,91,101
- Export Product Directories: 78,91,101

Development Finance Subindex: 65,72,79,91,101

Financing Types and Diversity: 79,91,102

- Seed Capital Funds: 78,91,102
- Venture Capital Funds: 78,91,102
- Product Development Finance: 78,91,102
- Long-Term Finance: 78,91,102
- Medium-Risk Intermediate/Long-Term Finance: 80,91,102

Leveraging Innovations: 80,92,102

- Leveraged Public Investments: 80,90,102
- Tax Credit Finance: 80,90,102
- Loan Guarantees: 80,90,102
- Secondary Market Mechanisms: 80,90,103
- Linked Deposits: 80,90,103
- Sub-State Development Finance Support: 80,90,103

Regulatory Innovations: 80,92,103

- Pension Fund Investment: 80,92,103
- BDCs and BIDCOs: 81,92,103
- Community Reinvestment Acts: 81,92,103
- Interstate Banking Reinvestment Provisions: 81,92,103

Local Economic Development Assistance Subindex: 65,72,81,93,103

- Community Planning: 81,93,103
- Regional Development Planning: 82,93,103
- Project Feasibility or Program Development: 82,93,104
- Organization Capacity Building: 82,93,104

Infrastructure and Amenities Subindex: 65,72,83,93,104

Public Capital Budgeting: 83,93,104

- Facility Inventory: 83,93,104
- Needs Assessments: 83,93,104
- Capital Plans: 83,93,104

Housing: 83,94,104

Affordability: 83,94,104

- New Construction Assistance: 83,94,104
- Rehabilitation Assistance: 83,94,104
- Pre-Development and Development Cost Assistance: 83,94,104

Direct Assistance: 83,94,104

- Home Ownership: 83,94,104
- Tenant Assistance: 83,94,104

Special Housing Needs: 83,94,105

- Homeless: 83,94,105
- Elderly: 83,94,105
- Housing Trust Funds: 84,94,105

Environment: 84,94,105

Solid Waste Management: 84,94,105

- Bottle Bills: 84,94,105
- Mandatory Recycling: 84,94,105
- Government Procurement of Recycled Products: 84,94,105

Hazardous Waste Management: 84,95,105

- Pollution Prevention: 84,95,105
- Waste Minimization: 84,95,105
- Property Transfer Law: 84,95,105
- State Superfund: 84,95,106

Air and Water Pollution Control: 84,95,106

- Air Permits and Emissions Fees: 84,95,106
- Indoor Air Pollution Control: 84,95,106
- Groundwater Protection: 84,95,106

Land-Use Protection: 84,95,106

Farmland Protection: 84,95,106

- Right-to-Farm Laws: 85,95,106
- Development Rights — Purchase: 85,95,106
- Development Rights — Transfer: 85,95,106
- Agriculture District Ordinances: 85,95,106

Land-Use Management: 85,95,107

- Growth Management: 85,95,107
- Wetlands Protection: 85,95,107

Rural/Urban Disparity Appendix: 108

- Long-Term Employment Growth Difference: 110,111
- Short-Term Employment Growth Difference: 110,111
- Unemployment Difference: 110,111
- Average Earnings Ratio: 110,111
- Long-Term Earnings Growth Difference: 110,111

Minority and Women Business Ownership Appendix 115

- Business Ownership — Black: 115,116
- Business Ownership — Hispanic: 115,116
- Business Ownership — Women: 115,116

Tax and Fiscal System Appendix: 117

Fiscal Stability and Balanced Revenue Sources: 117,120

- Personal Income Tax: 117,120
- General Sales Tax: 117,120
- Property Tax: 117,120
- Rainy Day Fund: 118,120,123

Tax Fairness: 118,121

- Sales Tax Exemption for Food: 118,121,123
- Sales and Excise Tax Burden on Low-Income Families: 118,121,123
- Personal Income Tax Progressivity: 118,121,123
- Income Tax Threshold: 118,121,123
- Property Tax Circuit Breaker: 118,121,123

Fiscal Equalization: 119,122,123

- Welfare: 119,122
- Health and Hospital: 119,122
- Local Education: 119,122
- Other State Aid: 119,122

Transfer Payment Investment Appendix: 124

- AFDC Self-Employment Demonstration: 125,126
- AFDC Maximum Family Benefit: 125,126
- Short-Time Compensation: 125,126
- UI Self-Employment Demonstration: 125,126
- Employment and Training Diversion: 125,126

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